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Definity Financial Corporation
Management's Discussion and Analysis
For the year ended December 31, 2022

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INTRODUCTION

February 9, 2023

The following Management's Discussion and Analysis ("MD&A") is the responsibility of management and has been approved by the Board of Directors ("Board"). This MD&A is intended to enable the reader to assess our financial position and results of operations as at and for the three and twelve-month periods ended December 31, 2022, compared to the corresponding periods in 2021. This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2022. All dollar amounts are in Canadian dollars. Certain totals, subtotals, and percentages may not reconcile due to rounding. Unless otherwise noted in this MD&A, all information was prepared as at February 9, 2023.

As used in this MD&A, references to "Definity", "the Company", "we", "us", and "our" refer to Definity Financial Corporation, and, unless the context otherwise requires or is otherwise expressly stated, its consolidated subsidiaries.

The Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). We measure and evaluate performance of our business using a number of financial measures. Among these measures are the "supplementary financial measures", "non-GAAP financial measures", and "non-GAAP ratios" (as such terms are defined under Canadian Securities Administrators' National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure*) included in this MD&A, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

The information presented in this MD&A includes the following supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios:

Supplementary Financial Measures: Claims ratio, core accident year claims and adjustment expenses, catastrophe losses, book value per share, financial capacity, leverage capacity, and certain other ratios.

Non-GAAP Financial Measures: Operating net income, operating income, non-operating gains (losses), distribution income, and underwriting expenses (net of other underwriting revenues)/operating expenses (net of other underwriting revenues).

Non-GAAP Ratios: Combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), and operating earnings per common share.

For more information about these supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios, including (where applicable) an explanation of how that measure provides useful information and a quantitative reconciliation of each non-GAAP financial measure to its most directly comparable GAAP measure disclosed in our consolidated financial statements, see Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

This MD&A may include product and brand names, trade names, and trademarks of Definity, our subsidiaries and other companies, each of which is the property of its respective owners.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future business, financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding possible future events or circumstances.

Forward-looking information in this MD&A is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as at the date such statements are made, and are subject to many factors that could cause our actual results, performance or achievements, or other future events or developments, to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors:

- Definity's ability to appropriately price its insurance products to produce an acceptable return, particularly in provinces where the regulatory environment requires auto insurance rate increases to be approved or that otherwise impose regulatory constraints on auto insurance rate increases;
- Definity's ability to accurately assess the risks associated with the insurance policies that it writes;
- Definity's ability to assess and pay claims in accordance with its insurance policies;
- litigation and regulatory actions, including potential claims in relation to demutualization and our IPO, and COVID-19-related class-action lawsuits that have arisen and which may arise, together with associated legal costs;
- Definity's ability to obtain adequate reinsurance coverage to transfer risk;
- Definity's ability to accurately predict future claims frequency or severity, including the frequency and severity of weather-related events and the impact of climate change;
- Definity's ability to address inflationary cost pressures through pricing, supply chain, or cost management actions;
- the occurrence of unpredictable catastrophe events;
- unfavourable capital market developments, interest rate movements, changes to dividend policies or other factors which may affect our investments or the market price of our common shares;
- changes associated with the transition to a low-carbon economy, including reputational and business implications from stakeholders' views of our climate change approach or that of our industry;
- Definity's ability to successfully manage credit risk from its counterparties;
- foreign currency fluctuations;
- Definity's ability to meet payment obligations as they become due;
- Definity's ability to maintain its financial strength rating or credit rating;
- Definity's dependence on key people;
- Definity's ability to attract, develop, motivate, and retain an appropriate number of employees with the necessary skills, capabilities, and knowledge;
- Definity's ability to appropriately manage and protect the collection and storage of information;
- Definity's reliance on information technology systems and internet, network, data centre, voice or data communications services and the potential disruption or failure of those systems or services, including as a result of cyber security risk;

- failure of key service providers or vendors to provide services or supplies as expected, or comply with contractual or business terms;
- Definity's ability to obtain, maintain and protect its intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology;
- compliance with and changes in legislation or its interpretation or application, or supervisory expectations or requirements, including changes in effective income tax rates, risk-based capital guidelines, and accounting standards;
- failure to design, implement and maintain effective control over financial reporting which could have a material adverse effect on our business;
- deceptive or illegal acts undertaken by an employee or a third party, including fraud in the course of underwriting insurance or settling insurance claims;
- Definity's ability to respond to events impacting its ability to conduct business as normal;
- Definity's ability to implement its strategy or operate its business as management currently expects;
- the impact of public-health crises, such as pandemics or other health risk events including the COVID-19 pandemic and their associated operational, economic, legislative and regulatory impacts, including impacts on Definity's ability to maintain operations and provide services to customers and on the expectations of governmental or regulatory authorities concerning the provision of customer relief;
- general economic, financial, political, and social conditions, particularly those in Canada;
- the competitive market environment and cyclical nature of the P&C insurance industry;
- the introduction of disruptive innovation;
- distribution channel risk, including Definity's reliance on brokers to sell its products;
- Definity's dividend payments being subject to the discretion of the Board and dependent on a variety of factors and conditions existing from time to time;
- there can be no assurance that Definity's normal course issuer bid ("NCIB") will be maintained, unchanged and/or completed;
- Definity's dependence on the results of operations of its subsidiaries and the ability of the subsidiaries to pay dividends;
- Definity's ability to manage and access capital and liquidity effectively;
- Definity's ability to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks;
- periodic negative publicity regarding the insurance industry or Definity;
- management's estimates and expectations in relation to interests in the broker distribution channel and the resulting impact on growth, income, and accretion in various financial metrics; and
- the completion and timing of Definity continuing under the *Canada Business Corporations Act*.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in Section 11 – "Risk Management and Corporate Governance" should be considered carefully by readers.

Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, the factors above are not intended to represent a complete list and there may be other factors not currently known to us or that we currently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as at the date made. The forward-looking information contained in this MD&A represents our expectations as at the date of this MD&A (or as at the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

1 — CORPORATE OVERVIEW AND STRATEGY

ABOUT DEFINITY

We are one of the leading property and casualty ("P&C") insurers in Canada.[1] We are the sixth largest provider of P&C insurance in Canada, with a market share of 4.9%.[2] We had over $3.6 billion in gross written premiums ("GWP") in 2022.

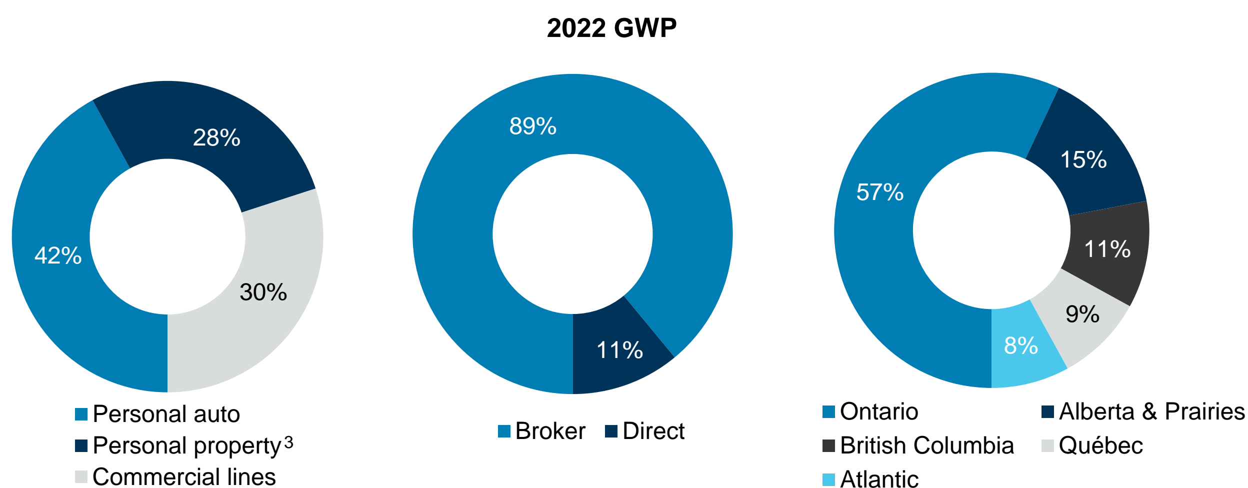
We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 70% of our GWP in 2022, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 30% of our GWP in 2022, includes fleet, individually-rated commercial auto, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of over 600 independent brokerage firms and a broker base of more than 30,000 individual brokers. Our direct distribution channel includes Sonnet Insurance; our pet insurer, Petline Insurance; and portions of our group insurance offering. In 2022, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 57% of GWP in 2022.

Our P&C insurance business is supported by our investment management activities. We had approximately $4.9 billion in investments as at December 31, 2022. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio is comprised primarily of short-duration, investment grade fixed income investments.

The following charts illustrate the breakdown of our 2022 GWP by business line, distribution channel, and region, respectively.



[3] Personal property includes pet insurance business.

[1] Based on market share by DWP.

[2] Market share of Canadian P&C insurance industry DWP of $70.5 billion for the twelve months ended June 30, 2022.

CORPORATE STRATEGY

Our goal is to be the P&C insurance partner Canadians choose to protect what they value most. This has driven us to build a national, high-performing multi-line and multi-channel insurer that we believe is well positioned to capitalize on multiple growth opportunities. Our strategic objectives are to become one of the five largest P&C insurers in Canada, maintain our digital leadership, consistently deliver disciplined financial management, and position Definity as a purpose-driven sustainability leader.

Integral to our strategy are a number of longer-term guiding principles. We **combine sound insurance fundamentals with exceptional experiences** to deliver on customer and broker expectations and maintain disciplined focus on key fundamentals such as analytics, underwriting, pricing, and service excellence. As industry conditions change, we are **agile and responsive using innovation and scalable platforms**. We also **augment our organic growth priorities with inorganic acquisitions and partnerships**. We **empower our top talent with a culture** that aligns with our brand promise. As we make progress to deliver on our objectives, we **thoughtfully embed ESG priorities** to provide positive outcomes in our business and communities.

We intend to execute our strategy over the medium-term through the following key focus areas.

Capitalize on the Expanding Digital Direct Insurance Market with Sonnet

Sonnet's operating model employs advanced data analytics from multiple third-party data sources to enable personalized product customization and pricing within minutes, and an exceptional customer experience in easy-to-understand language.

We continue to invest in and scale our Sonnet business and we observed high retention rates in the digital direct business. Despite an industry slowdown in new business, Sonnet's GWP has grown 13.3% from $293.3 million in 2021 to $332.4 million in 2022 reflecting resiliency in Sonnet's value proposition in the digital direct channel.

Relative to our competition, Sonnet also enables better access to the large group and affinity segment of the P&C insurance market. Group and affinity volume within Sonnet grew strongly in 2022 representing 20% of Sonnet's portfolio, despite this segment historically having significant barriers to entry. Our sophisticated origination capabilities enable us to reach those same customers directly or through partnerships that allow us to access target customers at a lower acquisition cost.

We are continuing to build on our leading customer experience with the launch of digital claims first notice of loss ("FNOL"). The new option will allow our customers to report claims digitally, complementing our award-winning digital experience.

Leverage Vyne to Increase Our Share of the Broker Channel

The broker channel continues to be an integral part of our distribution strategy driving an attractive mix of growth, diversification, and profitability.

Through our Vyne platform, we have been able to drive significant growth in segments we have targeted for expansion. We are continuing to see growth in our broker channel as GWP grew from $2.9 billion in 2021 to $3.2 billion in 2022, a growth rate of 11.7%. The industry slowdown in new business activity observed in 2022 supports higher retention rates which has benefitted our broker business. Vyne is integrated with all major broker management systems and leading quoting vendors, which enables us to be one of the first guaranteed quotes available to the broker. We are continuing to refine our models and leverage advanced analytics to advance our pricing capabilities and customer segmentation. Vyne also processes renewals seamlessly and allows brokers to switch existing policies from other carriers onto our platform more quickly and easily than traditional processes. We are continuing to build on the success of Vyne by reviewing and enhancing the broker experience.

Grow and Diversify Our Commercial Insurance Business

For the first time, we exceeded $1 billion GWP this year achieving growth of 17.6% as compared to 2021.

In the small business segment our Vyne Commercial platform, launched in 2021, enables brokers to instantly quote and bind new policies for small and medium enterprises across a range of products. To continue to enhance the broker experience and drive growth, we have expanded product segments available through the platform and increased support options for brokers.

Within mid-market, we have a comprehensive product suite and continue to leverage our cross-border capabilities to further penetrate this segment. Our regional footprint allows us to develop exceptionally strong relationships with our broker partners coast to coast.

The specialty segment provides an attractive opportunity for us to profitably grow our business. Industry dynamics in the Canadian specialty market are attractive, and success in this segment depends on sophisticated underwriting expertise and strong client relationships. Our immediate focus is expansion in five key segments, which include Specialty Energy & Property, Professional Lines, Surety, Agribusiness, and the Sharing Economy. Within the Sharing Economy, we have demonstrated our capabilities by continuing our successful collaboration with Uber into its third year and by establishing an additional collaboration with Turo in 2022.

Deliver a Superior Claims Experience that Supports and Satisfies Customers

Claims has been undergoing a multi-year transformation program focused on developing our technological capabilities to improve our customer experience, increase early intervention, decrease claims duration, and streamline the customer journey. For example, we launched digital FNOL for our Sonnet customers allowing auto claims to be submitted digitally. We are continuing to mature our use of data, predictive models, and advanced analytics to mitigate fraud and triage claims.

We have increased integrations with third-party service providers to improve the customer experience through real-time information sharing and enhance our responsiveness to customers during these important touchpoints. As catastrophes are expected to increase due to climate change, we have also made investments in our in-house catastrophe response team to be there for our customers when they need us the most.

Maintain Our Pace of Innovation

We continued to strengthen our enterprise innovation capabilities, through our ongoing progress on multi-cloud strategy, partnerships with industry leading players, and routinely evolving existing platforms to reflect ongoing changes in market dynamics, customer expectations, and technology. We became the first Canadian P&C insurer to have its core insurance platform for personal insurance take advantage of Guidewire Cloud Platform capabilities. This has better positioned us to scale, enhance service quality, and innovate with agility to explore new possibilities within the P&C industry.

We are continuing to invest in our data platform to simplify automation, incorporate machine learning, build scalable infrastructure in our personal lines and individually-rated commercial auto insurance origination, and enhance claims and underwriting operations. We continued to expand our use of application programming interfaces (APIs) to support our ability to integrate with existing and emerging partners to build a seamless experience for our customers and brokers. We are working on an innovative insurance solution to offer personal auto customers alternatives to traditional insurance products. We have a robust cyber strategy to enable digital trust and confidence amongst customers, brokers, employees, partners and other stakeholders and create and maintain integrity across all our digital assets.

We are continuing to pursue strategic partnerships with innovative companies to incorporate innovation throughout our enterprise. In 2022, we announced a new relationship with Google Cloud which will allow the two companies to collaborate and leverage Google’s advanced data systems, analytics, artificial intelligence, and machine learning to support development of innovative personalized solutions within a highly secure cloud environment.

Diversify and Strengthen Our Growth through Acquisitions and Partnerships

We have a largely unlevered balance sheet and significant excess capital available to deploy in support of acquisitions, and we are well positioned to actively participate in industry consolidation in both insurance carriers and distribution partners. We remain committed to being financially disciplined in evaluating potential transactions and ensuring the right conditions are in place for value creation. We intend to focus on opportunities in Canada that are strategically aligned with our business model, accelerate our standalone organic growth plans, and deliver returns in excess of those we could generate on our own.

To broaden our reach, we intend to continue enhancing our existing strategic partnerships and to explore new relationships to enable growth in target business segments, promote innovation, access new markets, and facilitate development of new capabilities. In 2022, we increased our interest in McDougall Insurance Brokers Limited (“McDougall”) from approximately 25% to 75%, expanding our relationship while bolstering our distribution income. Founded in 1946, McDougall is one of Ontario’s largest P&C insurance brokerages with proven M&A expertise. The acquisition builds on a strong, pre-existing relationship between Definity and McDougall with the goal to further expand McDougall’s distribution footprint.

Attract and Retain Top Talent to Empower a High-Performance Culture that Delivers on Our Brand

We believe it’s better at Definity and that sets the tone for our employee experience. In 2022, we launched our Employee Promise of CARE, to provide an employee experience that is:

- Collaborative – contribute to a team that values what employees bring
- Ambitious – challenge the status quo to deliver better results
- Rewarding – achieve professional growth, learn, and be organized for high performance
- Empowering – make a difference every day in a flexible, values-based environment.

We uphold a caring, inclusive, and equitable environment where employees have the confidence to innovate with each other and implement even better ways of doing things. We take a holistic view with employees by investing in their growth, supporting their goals, and helping them thrive in their career and as individuals.

In 2022, Definity received Great Place to Work Certification and the following recognitions for our people and workplace culture practices: Canada’s Most Admired Corporate Cultures, Best Places to Work for Inclusion, and Best Workplaces in Financial Services & Insurance.

In 2022, as our workforce moved back towards in-office collaboration, we launched our hybrid work model which focuses on a flexible blend of in-person and remote time to help us foster culture, deliver on our objectives, and enhance the sense of belonging for our employees.

Deliver on our Inclusion, Diversity, Equity, and Accessibility (IDEA) Targets, Climate Goals, and Other ESG Priorities

ESG is integral to delivering on our purpose of building a better world by helping our clients and communities adapt and thrive. In 2022, we made specific ESG commitments focused on the priorities of IDEA and Climate & Environmental Sustainability:

- IDEA – To have at least 30% women and at least 15% Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities at the vice-president and executive leadership team levels by 2026.
- Climate & Environmental Sustainability – To achieve net-zero emissions from both operations and investments (listed equities and corporate bonds) by 2040 or sooner. Accordingly, we have continued to invest in energy efficiency and emissions reductions in our owned facilities and embedded our climate change objectives into Definity's investment policy statement and process.

To help make progress, our CEO is executive sponsor overall for ESG and IDEA at Definity and several of the executive leadership team are members of our ESG Steering Committee and our IDEA Advisory Committee. Both committees are comprised of leaders and employees from across the organization, and they play prominent roles in establishing, developing, and implementing Definity's IDEA strategy.

As part of our demutualization process, Definity pledged to contribute 1% of its income before income taxes to the Definity Insurance Foundation ("Foundation") until at least 2026. In 2022, this amount was $2.8 million, which included expenses previously paid by Definity on behalf of the Foundation during its setup and a $2.3 million restricted gift to the Foundation. We have identified two high priority areas where Definity will invest to generate positive impacts for our communities moving forward, enabling us to deliver on our Purpose and Promise:

- Climate-ready communities, focused on improving adaptation and resilience
- Closing equity gaps, focused on reducing barriers and improving accessibility and affordability

2 — FINANCIAL PERFORMANCE

HIGHLIGHTS:

- Premium growth of 11.3% in the fourth quarter of 2022, and 11.8% for the full year, was driven by our strategic expansions in commercial lines, Sonnet and personal property, supported by ongoing firm market conditions in property and commercial lines
- Combined ratio of 91.7% in the fourth quarter of 2022 was reflective of the strong performance in our commercial and property lines; full year combined ratio remained solid at 94.1%
- Operating net income of $79.0 million in the fourth quarter of 2022, compared to $46.5 million in the fourth quarter of 2021, resulted in Operating EPS of $0.67 per share. Operating ROE of 10.0% over the last twelve months
- Full year net income attributable to common shareholders of $252.0 million, inclusive of a $67 million revaluation gain on our previous investment in McDougall, drove book value per share to $20.74
- 10% quarterly dividend increase to $0.1375 per share supported by our strong financial position and operational outlook
- Our application to continue under the Canada Business Corporations Act has been submitted to the federal Minister of Finance

RESULTS OF OPERATIONS

The following table sets forth certain of our results from operations for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars, except as otherwise noted)	Three months ended December 31, 2022	Three months ended December 31, 2021	Change	Years ended December 31, 2022	Years ended December 31, 2021	Change
Gross written premiums	$ 942.5	$ 846.6	11.3%	$ 3,613.8	$ 3,231.4	11.8%
Net written premiums	886.4	777.1	14.1%	3,452.1	2,991.3	15.4%
Net earned premiums	850.6	745.0	14.2%	3,248.6	2,833.6	14.6%
Net claims and adjustment expenses	500.1	470.2	29.9	1,987.9	1,721.5	266.4
Underwriting expenses (net of other underwriting revenues)[1]	280.3	234.5	45.8	1,068.4	917.6	150.8
Underwriting income	$ 70.2	$ 40.3	29.9	$ 192.3	$ 194.5	(2.2)
Impact of discounting	2.8	9.4	(6.6)	162.6	44.7	117.9
Underwriting income after the impact of discounting	$ 73.0	$ 49.7	23.3	$ 354.9	$ 239.2	115.7
Net investment income	39.5	25.1	14.4	133.1	96.8	36.3
Recognized losses on investments	(4.9)	(9.2)	4.3	(228.3)	(20.8)	(207.5)
Distribution revenues	19.9	-	19.9	19.9	-	19.9
Other income (expenses)	39.0	(20.5)	59.5	25.6	(34.0)	59.6
Income before income taxes	$ 166.5	$ 45.1	121.4	$ 305.2	$ 281.2	24.0
Income tax expense	(24.3)	(11.4)	(12.9)	(52.6)	(68.0)	15.4
Net income	**$ 142.2**	**$ 33.7**	**108.5**	**$ 252.6**	**$ 213.2**	**39.4**
Net income attributable to common shareholders	141.6	33.7	107.9	252.0	213.2	38.8
Net income attributable to non-controlling interests	0.6	-	0.6	0.6	-	0.6
Non-operating gains (losses)[1]	60.9	(17.3)	78.2	(6.2)	(9.7)	3.5
Operating income[1]	104.7	62.4	42.3	310.5	290.9	19.6
Operating net income[1]	79.0	46.5	32.5	238.9	220.4	18.5
Distribution income[1]	4.2	1.7	2.5	13.5	8.0	5.5
Earnings per common share, basic (in dollars)	$ 1.23	$ 0.31	0.92	$ 2.19	$ 2.03	0.16
Earnings per common share, diluted (in dollars)	$ 1.21	$ 0.31	0.90	$ 2.15	$ 2.02	0.13
Operating earnings per common share (in dollars)[3]	$ 0.67	$ 0.42	0.25	$ 2.04	$ 2.09	(0.05)
Book value per share (in dollars)[2]	$ 20.74	$ 20.68	0.06	$ 20.74	$ 20.68	0.06
Financial capacity[2]	$ 658.5	$ 1,057.8	(399.3)	$ 658.5	$ 1,057.8	(399.3)
Claims ratio[2]	58.8%	63.1%	(4.3) pts	61.2%	60.8%	0.4 pts
Expense ratio[3]	32.9%	31.5%	1.4 pts	32.9%	32.3%	0.6 pts
Combined ratio[3]	91.7%	94.6%	(2.9) pts	94.1%	93.1%	1.0 pts
Return on equity[3]	10.6%	10.7%	(0.1) pts	10.6%	10.7%	(0.1) pts
Operating return on equity[3]	10.0%	11.5%	(1.5) pts	10.0%	11.5%	(1.5) pts

Notes:
(1) Underwriting expenses (net of other underwriting revenues), non-operating gains (losses), operating income, operating net income, and distribution income are non-GAAP financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.
(2) Book value per share, financial capacity, and claims ratio are supplementary financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.
(3) Expense ratio, combined ratio, return on equity, operating return on equity, and operating earnings per common share are non-GAAP ratios. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

GROSS WRITTEN PREMIUMS

GWP for the fourth quarter of 2022 increased by $95.9 million or 11.3% compared to the fourth quarter of 2021, with growth across all our lines of business. Personal lines GWP was up 8.9% with increases in both our broker and direct businesses. Commercial lines GWP increased 17.0% as we continued to focus on profitable growth in this line of business. Customer relief related to the COVID-19 pandemic ended in May 2022 and did not impact GWP in the fourth quarter of 2022 (Q4 2021: decrease of approximately $13 million), but did reduce net earned premiums ("NEP") by approximately $7 million (Q4 2021: $14 million).

Full year GWP increased by $382.4 million or 11.8% compared to 2021. Personal lines GWP increased 9.6% and commercial lines GWP increased 17.6%. The full year impact of the customer relief related to the COVID-19 pandemic on our underwriting results was a reduction in GWP of approximately $21 million (2021: $55 million) and a reduction in NEP of approximately $43 million (2021: $58 million).

Further details regarding our premiums by line of business are provided in Section 3 — "Results by line of business".

UNDERWRITING RESULTS

The composition of the combined ratio for the three months and years ended December 31, 2022 and 2021 is as follows:

	Three months ended December 31,						Years ended December 31,					
	2022		2021		Change		2022		2021		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net earned premiums	$850.6		$745.0		$105.6	14.2%	$3,248.6		$2,833.6		$415.0	14.6%
Net claims and adjustment expenses	500.1	58.8%	470.2	63.1%	29.9	(4.3) pts	1,987.9	61.2%	1,721.5	60.8%	266.4	0.4 pts
Underwriting expenses (net of other underwriting revenues)[2]	280.3	32.9%	234.5	31.5%	45.8	1.4 pts	1,068.4	32.9%	917.6	32.3%	150.8	0.6 pts
Combined ratio[3]		91.7%		94.6%		(2.9) pts		94.1%		93.1%		1.0 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
(2) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Combined ratio is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The growth in NEP was due primarily to a high level of GWP growth in 2021 and in 2022, and the impact of a quota share treaty which was not renewed in 2022.

Our underwriting income for the fourth quarter of 2022 was $70.2 million and our combined ratio was 91.7%, compared to underwriting income of $40.3 million and a combined ratio of 94.6% in the same quarter a year ago. The combined ratio improved due to a decrease in catastrophe losses as we benefitted from recoveries under our multi-year aggregate catastrophe reinsurance treaty, and a reduction in the core accident year claims ratio which was impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation. These were partially offset by lower favourable prior year claims development.

Our full year underwriting income decreased slightly by $2.2 million and led to a combined ratio of 94.1% in 2022 compared to 93.1% in 2021. Full year results were impacted by a higher commissions ratio and elevated catastrophe losses, which included the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter, as well as an increase in the core accident year claims ratio as a result of normalizing auto claims frequencies.

NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

	Three months ended December 31,						Years ended December 31,					
	2022		2021		Change		2022		2021		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Core accident year claims and adjustment expenses[2]............	$ 519.6	61.1%	$ 469.3	62.7%	$ 50.3	(1.6) pts	$1,971.5	60.4%	$ 1,705.8	60.2%	$ 265.7	0.2 pts
Catastrophe losses[3]...............	4.3	0.5%	33.8	4.8%	(29.5)	(4.3) pts	108.9	3.6%	91.7	3.3%	17.2	0.3 pts
Prior year favourable claims development............................	(23.8)	(2.8%)	(32.9)	(4.4%)	9.1	1.6 pts	(92.5)	(2.8%)	(76.0)	(2.7%)	(16.5)	(0.1) pts
Net claims and adjustment expenses[4].............................	$ 500.1	58.8%	$ 470.2	63.1%	$ 29.9	(4.3) pts	$ 1,987.9	61.2%	$1,721.5	60.8%	$ 266.4	0.4 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year favourable claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(4) The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, decreased in the fourth quarter of 2022 driven by our auto lines of business, which were impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation. For the year, the core accident year claims ratio increased slightly.

Catastrophe losses decreased in the fourth quarter of 2022 as compared to the same quarter a year ago. For the year, catastrophe losses increased driven by the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter. In the fourth quarter, we benefitted from our multi-year aggregate catastrophe reinsurance treaty which reduced the net impact of catastrophe losses to $4.3 million.

We experienced lower levels of favourable prior year claims development in the fourth quarter of 2022 as compared to the same quarter a year ago, driven by our auto lines of business. For the year, we experienced higher levels of favourable claims development driven by our personal property and commercial lines of business.

UNDERWRITING EXPENSES

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the three months and years ended December 31, 2022 and 2021 are as follows:

	Three months ended December 31,						Years ended December 31,					
	2022		2021		Change		2022		2021		Change	
(in millions of dollars, except as otherwise noted)	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio	($)	Ratio[1]	($)	Ratio[1]	($)	Ratio
Net commissions	$ 136.3	16.0%	$ 100.8	13.5%	$ 35.5	2.5 pts	$ 520.4	16.0%	$ 426.5	15.0%	$ 93.9	1.0 pts
Operating expenses (net of other underwriting revenues)[2]	112.4	13.2%	105.4	14.2%	7.0	(1.0) pts	427.6	13.2%	384.2	13.5%	43.4	(0.3) pts
Premium taxes	31.6	3.7%	28.3	3.8%	3.3	(0.1) pts	120.4	3.7%	106.9	3.8%	13.5	(0.1) pts
Underwriting expenses (net of other underwriting revenues)[2][3]	$ 280.3	32.9%	$ 234.5	31.5%	$ 45.8	1.4 pts	$1,068.4	32.9%	$ 917.6	32.3%	$ 150.8	0.6 pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(2) Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The net commissions ratio increased in the fourth quarter of 2022 as compared to 2021, due primarily to the reduction in commission income resulting from the non-renewal of the quota share treaty in January 2022, and unusually low contingent profit commission accruals in the fourth quarter of 2021. For the year, the net commissions ratio increased due to the non-renewal of the quota share treaty. These were partially offset by the elimination on consolidation of commission paid to McDougall in the fourth quarter.

The operating expense ratio decreased in the fourth quarter of 2022 and for the year due to the growth in NEP outpacing the increase in operating expenses.

NET INVESTMENT INCOME

The composition of net investment income for the three months and years ended December 31, 2022 and 2021 is as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	2022	2021	Change	2022	2021	Change
Interest income	$ 32.3	$ 18.5	$ 13.8	$ 105.3	$ 71.5	$ 33.8
Dividend income	8.8	8.5	0.3	33.4	30.7	2.7
Investment expenses	(1.6)	(1.9)	0.3	(5.6)	(5.4)	(0.2)
Net investment income	$ 39.5	$ 25.1	$ 14.4	$ 133.1	$ 96.8	$ 36.3

Net investment income increased in the fourth quarter of 2022 and for the year, driven primarily by higher fixed income yields, as well as the investment of funds generated from our underwriting results, business growth, and net proceeds retained by the Company from the initial public offering ("IPO") and related transactions.

NON-OPERATING GAINS (LOSSES)

The composition of non-operating gains (losses) for the three months and years ended December 31, 2022 and 2021 are as follows:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	2022	2021	Change	2022	2021	Change
Recognized (losses) gains on investments						
Realized (losses) gains on sale of AFS investments	$ (5.3)	$ 3.3	$ (8.6)	$ (44.0)	$ 49.7	$ (93.7)
Net gains (losses) on FVTPL investments	2.8	(12.0)	14.8	(161.4)	(70.0)	(91.4)
Impairment losses on AFS investments	(2.4)	(0.5)	(1.9)	(22.9)	(0.5)	(22.4)
Impact of discounting	2.8	9.4	(6.6)	162.6	44.7	117.9
Demutualization and IPO-related expenses, and interest on funds held in trust[1]	1.7	(16.7)	18.4	0.7	(30.1)	30.8
Amortization of intangible assets recognized in business combinations[1]	(3.5)	(0.6)	(2.9)	(5.4)	(3.5)	(1.9)
Revaluation gain on acquisition of McDougall[1]	67.0	-	67.0	67.0	-	67.0
Other[1][2]	(2.2)	(0.2)	(2.0)	(2.8)	-	(2.8)
Non-operating gains (losses)[3]	$ 60.9	$ (17.3)	$ 78.2	$ (6.2)	$ (9.7)	$ 3.5

Notes:
(1) Included in Other income (expenses) in our consolidated financial statements.
(2) Other represents foreign currency translation of insurtech venture capital funds, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.
(3) Non-operating gains (losses) is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Realized losses on our Available for Sale ("AFS") portfolio shifted from gains in the fourth quarter of 2021 and for the year to losses in 2022. In 2022, the significant increase in fixed income yields resulted in increased volatility in the period. In the first quarter of 2021, we recorded realized gains of $37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities. The investment impairment losses in 2022 were driven by the volatility in equity markets.

Net losses of $161.4 million on our Fair Value Through Profit or Loss ("FVTPL") portfolio in 2022 were more than offset by the discounting recovery of $162.6 million, driven by the increase in yields. Refer to Section 5 — "Financial position" for additional details of our investment portfolio mix.

Demutualization and IPO-related expenses decreased due to the completion of the demutualization process, and the initial public offering and cornerstone private placements in the fourth quarter of 2021.

DISTRIBUTION INCOME

As part of our strategy to become one of the five largest P&C insurers in Canada, we intend to diversify and strengthen our growth through acquisitions and partnerships. Distribution partnerships are a key component of our strategy, given the diversification benefits they can provide as a complementary source of income. On October 3, 2022, we increased our ownership interest in McDougall from approximately 25% to 75%. On October 3, 2022, we also acquired 100% of the shares of T.G Colley & Sons Limited and Integrisure Group Insurance Inc. Distribution income was $4.2 million in the fourth quarter of 2022 compared to $1.7 million in the fourth quarter of 2021, due primarily to the increased ownership position. For the year, distribution income was $13.5 million compared to $8.0 million in 2021.

Distribution income is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

INCOME TAX EXPENSE

The reconciliation of income tax calculated at the Canadian statutory tax rate to the income tax expense at the effective tax rate recorded in net income is provided in the table below:

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Income tax expense calculated based on statutory tax rates	26.3%	26.3%	-	26.3%	26.3%	-
Canadian dividend income not subject to tax	(1.0%)	(3.7%)	2.7 pts	(2.5%)	(2.5%)	-
Non-deductible expenses	0.1%	-	0.1 pts	0.2%	-	0.2 pts
Non-taxable gain arising on business combinations	(10.7%)	-	(10.7) pts	(5.8%)	-	(5.8) pts
Other	(0.1%)	2.7%	(2.8) pts	(1.0%)	0.4%	(1.4) pts
Income tax expense recorded in net income	14.6%	25.3%	(10.7) pts	17.2%	24.2%	(7.0) pts

The effective tax rates for the fourth quarter and the full year of 2022 and 2021 were lower than the statutory rate of 26.3% (2021: 26.3%) due to a revaluation gain of $67.0 million on our previous ownership interest in McDougall which is non-taxable and the impact of non-taxable Canadian dividend income.

NET INCOME

Net income attributable to common shareholders was $141.6 million in the fourth quarter of 2022 compared to $33.7 million in the fourth quarter of 2021. Net income attributable to common shareholders included a revaluation gain of $67.0 million on our previous ownership interest in McDougall and further increased as a result of higher underwriting income and net investment income.

Full year net income attributable to common shareholders was $252.0 million compared to $213.2 million in 2021. The increase was due in part to the revaluation gain on McDougall and higher net investment income. These were partially offset by higher market value losses on our bond portfolio due to the significant increase in fixed income yields, and investment impairment charges of $22.9 million in 2022 due to significant equity market volatility. In 2021, we also recorded realized gains of $37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities.

OPERATING NET INCOME

Operating net income increased to $79.0 million in the fourth quarter of 2022 compared to $46.5 million in the fourth quarter of 2021 due to higher underwriting, net investment, and distribution income. Full year operating net income was $238.9 million compared to $220.4 million in 2021. Operating net income is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

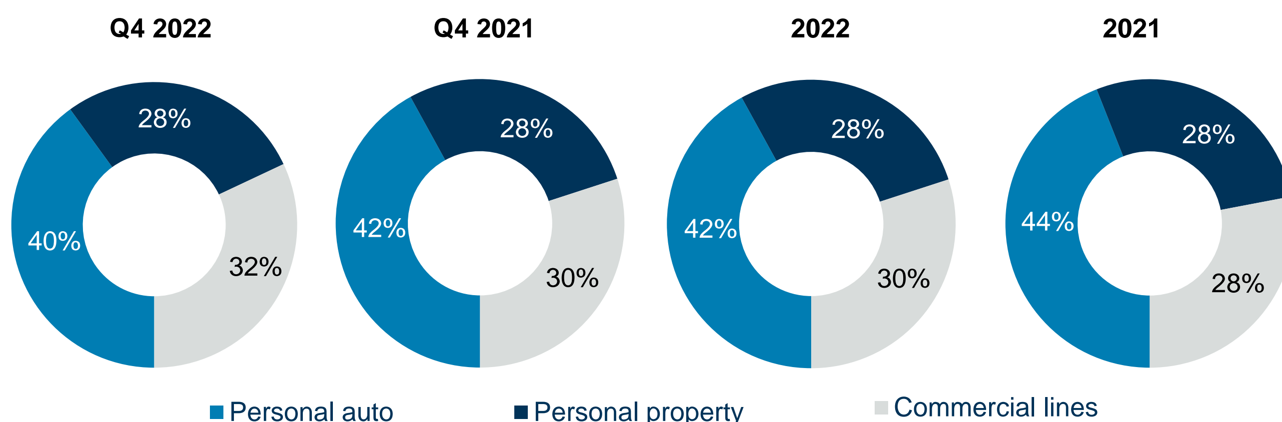
OPERATING ROE

Operating ROE was 10.0% in 2022 compared to 11.5% in 2021. Operating ROE was lower, despite higher operating net income, due to the impact of year over year increases in our average equity position. Operating ROE is a non-GAAP ratio. Refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

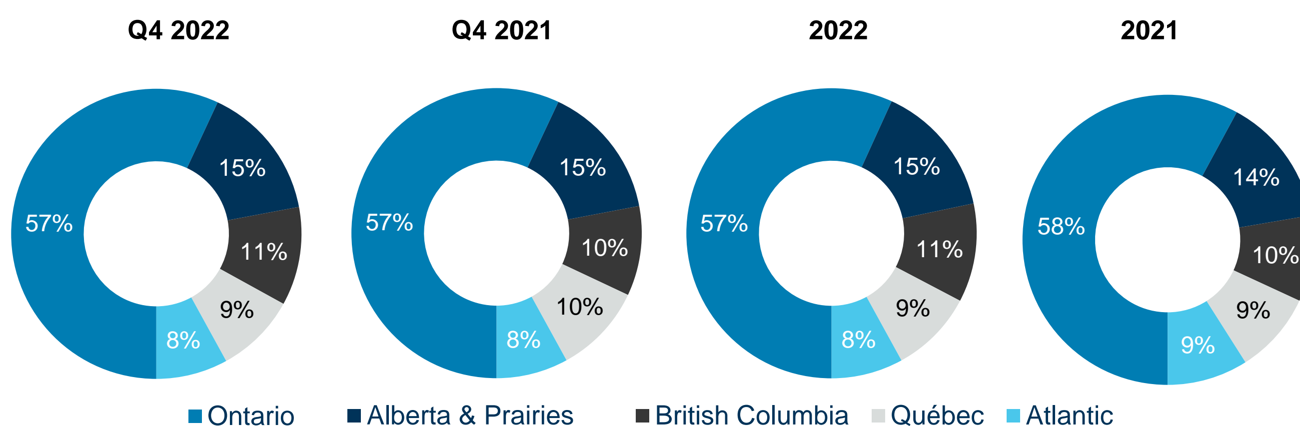
3 — RESULTS BY LINE OF BUSINESS

We provide a wide range of P&C insurance products throughout Canada in two broad lines of business: personal insurance and commercial insurance. Personal lines business is further subdivided between auto and property, the latter of which includes pet insurance products.

The following charts illustrate our GWP mix on this basis for the three months and years ended December 31, 2022 and 2021:



The shift in business mix for the fourth quarter of 2022 and for the year was due to our strategy to diversify the portfolio by a heightened focus on growth in our personal property and commercial lines businesses. We continued to make progress with personal auto now representing 42% of our total GWP in 2022, a decrease from 50% in 2018.



There were slight shifts in the regional mix in the fourth quarter of 2022 and for the year compared to the same periods in the prior year.

UNDERWRITING — PERSONAL LINES

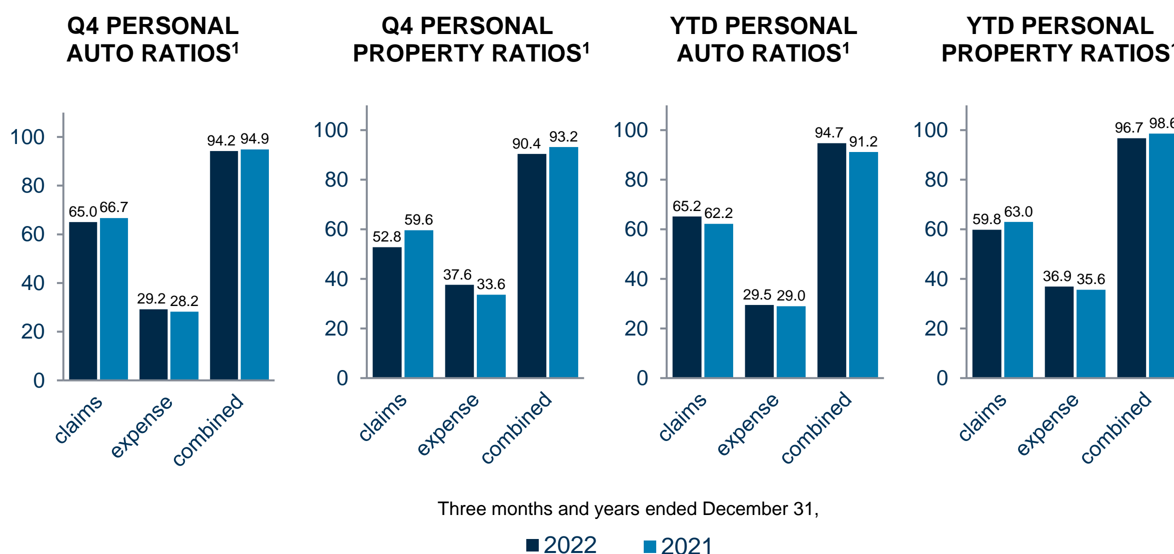
The table below sets forth selected results of operations of our personal lines of business for the three months and years ended December 31, 2022 and 2021 and the policies in force as at December 31, 2022 and 2021.

	Three months ended December 31,			Years ended December 31,		
(in millions of dollars, except as otherwise noted)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Policies in force (thousands) (at period end)						
Auto	785.0	761.6	3.1%	785.0	761.6	3.1%
Property	837.6	789.1	6.1%	837.6	789.1	6.1%
Total	1,622.6	1,550.7	4.6%	1,622.6	1,550.7	4.6%
Gross written premiums						
Auto	$ 377.2	$ 355.5	6.1%	$ 1,530.6	$ 1,426.5	7.3%
Property	268.0	237.1	13.0%	1,012.7	894.6	13.2%
Total	$ 645.2	$ 592.6	8.9%	$ 2,543.3	$ 2,321.1	9.6%
Net earned premiums						
Auto	$ 379.4	$ 344.3	10.2%	$ 1,470.7	$ 1,332.5	10.4%
Property	240.1	203.7	17.9%	907.0	761.2	19.2%
Total	$ 619.5	$ 548.0	13.0%	$ 2,377.7	$ 2,093.7	13.6%
Net claims and adjustment expenses						
Auto	$ 246.5	$ 229.4	$ 17.1	$ 959.6	$ 829.1	$ 130.5
Property	126.8	121.5	5.3	542.8	479.8	63.0
Total	$ 373.3	$ 350.9	$ 22.4	$ 1,502.4	$ 1,308.9	$ 193.5
Underwriting expenses (net of other underwriting revenues)(1)						
Auto	$ 110.6	$ 97.2	$ 13.4	$ 433.4	$ 386.6	$ 46.8
Property	90.2	68.4	21.8	334.2	270.6	63.6
Total	$ 200.8	$ 165.6	$ 35.2	$ 767.6	$ 657.2	$ 110.4
Underwriting income						
Auto	$ 22.3	$ 17.7	$ 4.6	$ 77.7	$ 116.8	$ (39.1)
Property	23.1	13.8	9.3	30.0	10.8	19.2
Total	$ 45.4	$ 31.5	$ 13.9	$ 107.7	$ 127.6	$ (19.9)

Notes:
(1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Overall, personal lines GWP increased 8.9% in the fourth quarter of 2022 (9.6% for the year). Sonnet GWP was $87.2 million in the fourth quarter of 2022, an increase of 12.2% compared to $77.7 million in the fourth quarter of 2021. Sonnet GWP was $332.4 million for the year, an increase of 13.3% compared to $293.3 million in 2021. In the quarter, we experienced a lower growth rate in Sonnet personal auto attributed to current market conditions, which include higher customer acquisition costs and lower levels of online shopping for insurance. Personal auto GWP increased 6.1% in the quarter (7.3% for the year), driven by an increase in average written premiums and growth in Sonnet. Customer relief related to the COVID-19 pandemic ended in May 2022. The impact of customer relief was nil in the quarter versus a reduction in GWP of approximately $11 million in the fourth quarter of 2021. Personal property GWP increased 13.0% in the quarter (13.2% for the year), benefitting from continued firm market conditions and growth in Sonnet.

Personal lines underwriting income was $45.4 million in the fourth quarter of 2022 compared to $31.5 million in the same quarter a year ago. Full year personal lines underwriting income was $107.7 million compared to $127.6 million in 2021.



Notes:
(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our personal auto line of business is as follows:

	Three months ended December 31[(1)]			Years ended December 31[(1)]		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses[(2)]	70.5%	75.7%	(5.2) pts	68.6%	67.1%	1.5 pts
Catastrophe losses[(3)]	-	0.1%	(0.1) pts	0.3%	0.5%	(0.2) pts
Prior year favourable claims development	(5.5%)	(9.1%)	3.6 pts	(3.7%)	(5.4%)	1.7 pts
Claims ratio[(3)]	65.0%	66.7%	(1.7) pts	65.2%	62.2%	3.0 pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal auto combined ratio of 94.2% in the fourth quarter of 2022 (Q4 2021: 94.9%) improved due primarily to a reduction in the core accident year claims ratio, which was impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation, partially offset by lower favourable prior year claims development. For the year, the personal auto combined ratio was impacted by lower favourable prior year claims development, and an increase in the core accident year claims ratio driven by higher claims frequency combined with inflationary cost pressures, largely within the auto physical damage coverage.

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our personal property line of business is as follows:

	Three months ended December 31[1]			Years ended December 31[1]		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses[2]	50.5%	46.2%	4.3 pts	53.4%	53.1%	0.3 pts
Catastrophe losses[3]	3.4%	12.7%	(9.3) pts	8.4%	9.4%	(1.0) pts
Prior year (favourable) adverse claims development	(1.1%)	0.7%	(1.8) pts	(2.0%)	0.5%	(2.5) pts
Claims ratio[3]	52.8%	59.6%	(6.8) pts	59.8%	63.0%	(3.2) pts

Notes:

(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal property combined ratio was 90.4% in the fourth quarter of 2022 (2021: 93.2%). Improvements in the combined ratio for the quarter and the year were due to a decrease in catastrophe losses and an increase in favourable prior year claims development. These were partially offset by an increase in the core accident year claims ratio.

UNDERWRITING — COMMERCIAL LINES

The table below sets forth selected results of operations of our commercial lines of business for the three months and years ended December 31, 2022 and 2021.

(in millions of dollars, except as otherwise noted)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Gross written premiums	$ 297.3	$ 254.0	17.0%	$ 1,070.5	$ 910.3	17.6%
Net earned premiums	$ 231.1	$ 197.0	17.3%	$ 870.9	$ 739.9	17.7%
Net claims and adjustment expenses	$ 126.8	$ 119.3	$ 7.5	$ 485.5	$ 412.6	$ 72.9
Underwriting expenses (net of other underwriting revenues)[1]	$ 79.5	$ 68.9	$ 10.6	$ 300.8	$ 260.4	$ 40.4
Underwriting income	$ 24.8	$ 8.8	$ 16.0	$ 84.6	$ 66.9	$ 17.7

Notes:

(1) Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Strong growth momentum in commercial lines continued in the fourth quarter of 2022. GWP increased 17.0% in the fourth quarter of 2022 (17.6% for the year), as we benefitted from continued broker support as a result of our strong value proposition, rate achievement in a firm market environment, and further scaling of specialty capabilities, with an ongoing focus on strong underwriting execution.

Notes:
(1) Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our commercial lines of business is as follows:

	Three months ended December 31[(1)]			Years ended December 31[(1)]		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses[(2)]	56.6%	57.0%	(0.4) pts	54.2%	54.4%	(0.2) pts
Catastrophe losses[(3)]	(1.6%)	5.0%	(6.6) pts	3.7%	2.3%	1.4 pts
Prior year favourable claims development	(0.1%)	(1.5%)	1.4 pts	(2.2%)	(0.9%)	(1.3) pts
Claims ratio[(3)]	54.9%	60.5%	(5.6) pts	55.7%	55.8%	(0.1) pts

Notes:
(1) The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.
(2) Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".
(3) Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Commercial lines underwriting income was $24.8 million in the fourth quarter of 2022 compared to $8.8 million in the same quarter a year ago. For the year, the commercial lines underwriting income was $84.6 million compared to $66.9 million in 2021.

The commercial lines combined ratio was 89.2% in the fourth quarter of 2022 compared to the combined ratio of 95.5% in the same quarter a year ago. The combined ratio improvement was driven by a decrease in catastrophe losses. Full year commercial lines combined ratio was 90.3% compared to 91.0% in 2021. Improvements in underwriting profitability were due primarily to higher favourable prior year claims development, partially offset by an increase in catastrophe losses.

4 — OPERATING ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT

Economic uncertainty	• Rising inflation and geopolitical events have increased economic uncertainty. • Inflation levels across the world surged to 40-year highs in 2022 due to supply chain disruptions, capacity constraints, and low unemployment following the lifting of restrictions related to the COVID-19 pandemic. To manage inflation, central banks have significantly increased interest rates while governments have implemented numerous programs to address affordability issues. Inflation has come off its recent highs but remains at elevated levels with increased risk of a near-term global recession. • Significant changes in interest rates will result in fluctuations in recurring investment returns as well as the market value of our interest sensitive assets and liabilities (such as claims and pension obligations). • Russia's invasion of Ukraine in February 2022 resulted in new international sanctions against Russia. The conflict between the two countries continues to evolve and foreign governments continue to respond accordingly. This has increased volatility in global financial markets and presented further economic challenges and global supply chain disruptions. • We do not have direct investments nor underwriting exposures of significance in Russia or Ukraine, and are continuing to monitor the evolving economic impact of the above on our operations and capital position. • We remain well capitalized with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A (low) for Definity Insurance Company ("Definity Insurance"). Our liquidity remains strong and our bank facilities remain undrawn and fully accessible. • Our strong balance sheet and capital level positions us well for a period of continued uncertainty.
Personal auto environment	• Driving mobility has returned to pre-pandemic levels which has resulted in increased claims frequency. Driving patterns in the larger urban centers continue to be impacted by hybrid working environments and auto claims frequencies in these areas remain slightly lower than pre-pandemic levels. • Increased severity with respect to auto physical damage has been a persistent issue since the fourth quarter of 2021. Cost increases are due in part to supply chain challenges related to automotive parts, which has resulted in a shortage of new and used vehicles. While supply issues have declined in late 2022, they continue to remain elevated. • Increasing trends in frequency and severity have led most insurers to unwind their COVID-19 relief measures and, in some cases, increase rates beyond pre-pandemic levels. • We expect an active auto rate environment to continue into 2023 with insurers responding to the elevated loss costs with higher rate filings and a focus on underwriting actions. • On January 25, 2023, the Alberta government precluded new unapproved increases in personal auto rates until December 31, 2023, and the Alberta insurance regulator indicated its view that certain underwriting practices are no longer permissible. As a result, we expect auto underwriters in the province to reassess their strategies.

Climate change	• Changing weather patterns are increasing the frequency and severity of extreme weather events, resulting in increased catastrophe events and more volatile claim costs, particularly in the property lines of business. • We are continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, and to ensure pricing, coverage options, risk accumulations, and claim liability estimates remain appropriate. • Our exposure to and/or concentrations of insured risks are actively monitored with risk tolerance consideration given to expected loss exposures and the potential impact on our financial performance and capital position. We manage our exposure to catastrophe events by limiting underwriting of particular risks or regions, managing the policy terms, including deductibles provided to policyholders and purchasing reinsurance. • Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. Reinsurers have been particularly hard hit by global catastrophes in 2022 which has resulted in tightening capacity and increased cost of reinsurance. We believe this has led many primary insurers, including ourselves, to increase their net retention to specific reinsurable events. • Furthermore, to reduce our direct impact on climate change, we announced in March 2022 our commitment to achieve net-zero emissions for both our operations and investments (listed equities and corporate bonds) by 2040 or sooner. • In July 2022, we announced the implementation of a Sustainability-Linked Loan structure that links its borrowing costs directly to the Company's performance on ESG targets, including achieving Scope 1 and Scope 2 operational greenhouse gas emissions targets.
Investment environment	• The World Bank recently cut global growth forecasts and warned of the growing prospects for a global recession in 2023 in the face of high inflation, interest-rates hikes, and Russia's ongoing invasion of Ukraine. • Similar to other major developed central banks, the Bank of Canada raised rates significantly throughout 2022, bringing the policy rate to 4.5% in January 2023 which is now in restrictive territory based on the Bank's 2-3% neutral range. • Slowing economic activity, high levels of inflation, rising interest rates, and increasing global volatility led to an unprecedented year in financial markets marked by losses in virtually every global asset class. • Canadian stocks fell less than their global peers, with the TSX60 decreasing 9.2% in 2022 compared with the MSCI World Index declining 19.4% over the same period. • Our investment strategy focuses on maximizing our long-term capital strength, while seeking to optimize risk-adjusted returns. We have an established investment policy and strategy that is based on our risk appetite, the prudent person approach and regulatory guidelines, and reflects the expected settlement pattern of claim liabilities.

INDUSTRY OUTLOOK

Below is an overview of our expectations for the P&C insurance industry over the next 12 months.

Industry results improved significantly in 2021 and remained strong in the first nine months of 2022, bolstered by continued low, but increasing, claims frequency in auto portfolios and solid results in property and commercial insurance, despite elevated catastrophe losses. Overall, the industry reported a return on equity of approximately 16.5% in 2021 and 13.9% in the first nine months of 2022.[3] We continue to expect the combination of normalizing auto claims frequency, continued weather events, and higher severity related to inflation to bring the industry's return on equity closer to its long run average of 10% over time.

Fixed income yields increased significantly in recent quarters and are now supporting growth in net investment income, albeit at the cost of mark to market valuations. Given the heightened macro risk environment, we believe underwriting discipline remains important for the industry to sustainably achieve desirable levels of profitability.

[3] MSA Research.

Despite the recent solid profitability at the industry level, we believe the operating environment is one that is conducive to sustaining firm market conditions. We expect firm market conditions in property lines will persist over the next 12 months, particularly following the dynamics of the recent reinsurance renewal season, while conditions in auto lines have begun to firm as a result of normalizing claims frequency and inflationary cost pressures.

Personal auto	• We expect the frequency of claims to continue to normalize toward pre-pandemic levels over the next six to nine months as people continue to return to on-site work environments. We also expect the inflationary pressures affecting vehicle damage claims to remain elevated but not escalate much further. With some early indicators of improving supply chain in production and a slight decline in used car prices, we could see severity continue to level off or slightly decline in the coming quarters. Both frequency and severity trends as well as the lag in the recognition of earned premium are expected to continue to drive firming industry pricing and a focus on disciplined underwriting.
Personal property	• The volatility of weather events, such as floods, severe winds, and wildfires, continues to be a key risk for this line of business across most regions of the country. Combined with the ongoing inflationary pressure on building materials and labour, claim costs are expected to increase and will be reflected in firm premium pricing over the next 12 months. • We expect this volatility to continue, with commensurate rate actions, coverage and appetite changes, and an enhanced focus on loss prevention and mitigation. It could also lead to ongoing changes in the capacity or pricing provided by global reinsurers. • We expect the reinsurance market will drive firmer pricing across the entire property portfolio, but this will be more pronounced in the higher catastrophe risk regions of the country.
Commercial lines	• Elevated inflation and interest rates are expected to continue in the foreseeable future, which increases the probability of an economic slowdown. This will likely impact industry growth somewhat in the near term. • We expect the commercial lines market to remain firm over the next 12 months as carriers focus on ensuring long-term profitability and sustainable availability of capacity. We expect the hard pricing environment to be influenced by inflation trends, weather events, expected investment returns, and the industry's overall underwriting performance. • Hardening reinsurance conditions in 2023 are expected to prolong firm commercial lines market conditions and pricing.

FINANCIAL TARGETS

Our continuing focus on key strategic priorities are to capitalize on the expanding digital direct insurance market with Sonnet, leverage Vyne to increase our share of the broker channel, grow and diversify our commercial insurance business, maintain our pace of innovation, diversify and strengthen our growth through acquisitions and partnerships including in our distribution business, and attract and retain top talent to empower a high-performance culture that delivers on our brand. As a leading Canadian P&C insurer, with a seasoned management team focused on key priorities, we have the confidence in our ability to achieve these objectives and inform our financial targets. The financial targets set out below are based on certain other factors and assumptions, including the key assumptions and factors set out below.

Over the next year, our financial targets are to:

- **Grow GWP at an upper single digit to approximately 10% rate** supported by, among other things, continuing to scale Sonnet, leveraging our investments in the broker channel, and expanding our core commercial insurance and specialty capabilities. This target compares to our GWP growth rates of 11.8% in 2022 (as compared to 2021) and 14.8% in 2021 (as compared to 2020);
- **Maintain a full year combined ratio in the mid-90s** as our strategic investments drive scale and we continue to generate operational improvements across all lines of business. This target compares to our combined ratios of 94.1% in 2022 and 93.1% in 2021 (which was positively impacted by the COVID-19 pandemic); and
- **Generate an annual operating ROE in the upper single digit to below teens range** through underwriting profitability, investment performance and distribution income, and reflective of the capital levels generated by our business. This target compares to our operating ROE of 10.0% in 2022 and 11.5% in 2021 (which was positively impacted by the COVID-19 pandemic).

We expect to achieve further improvements to operating ROE over time, targeting the low teens, through future capital optimization.

The above financial targets are based on management's current views and strategies, assumptions and expectations concerning our growth opportunities, and assessment of the opportunities for our business and the insurance industry. The financial targets have been calculated using accounting policies that we used to prepare the financial statements or, in the case of operating ROE, in the manner described under Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". In particular, the above financial targets have been prepared in accordance with current IFRS applicable to the insurance industry, but are also reflective of the adoption of IFRS 17 — *Insurance Contracts* ("IFRS 17") and IFRS 9 — *Financial Instruments*, effective for annual reporting periods beginning on or after January 1, 2023. We may update the above financial targets in conjunction with our reporting for the first quarter of 2023 once the impact of IFRS 17 is confirmed, but do not currently expect any such updated targets to differ materially from the ranges disclosed above or their definitions.

All three of our targets are also based on the following key assumptions and factors:

- we are able to maintain rate adequacy, particularly for auto rates in regulated provinces;
- firm market conditions across most commercial line and personal property segments continue in line with our industry outlook over the next 12 months, and will support continued rate increases for these lines of business;
- catastrophe losses of approximately 4% of net earned premiums for the full year;
- auto claims frequencies normalize in line with those experienced prior to the COVID-19 pandemic between 2016 and 2019 as customer driving patterns and behaviour return to historical trends;
- there is no new customer rate relief action;
- recorded claim liabilities are adequate with no significant prior year claims development or overall reserve strengthening required during the outlook period for the financial targets;

- claims severity in 2023 will grow from the elevated level in 2022 at more normal rates;
- there are no significant changes in the P&C insurance regulatory environment, including with respect to capital requirements;
- there is no downgrade of the financial strength ratings of Definity Insurance;
- our operating environment is in line with our expectations for the P&C insurance industry over the next 12 months described above under "Industry Outlook"; and
- unanticipated cost increases can be addressed during the outlook period by pricing changes.

In addition, our operating ROE target is also based on the following key assumptions and factors and assumes we achieve the above combined ratio target:

- fixed income market yields remain at current levels throughout the outlook period, resulting in net investment income of approximately $150 million in 2023;
- investment market returns and the capital appreciation generated in our investment portfolio normalize over the outlook period from the volatile levels experienced in 2022;
- broker investments generate operating income of approximately $40 million in 2023 through a combination of distribution income and lower commission expenses;
- taxation rates remain consistent with the current substantively enacted rates; and
- retained earnings increase commensurate with expected net income attributable to common shareholders less expected dividends to common shareholders.

Our expectation for further improvements in operating ROE through future capital optimization assumes that we receive regulatory approval for, and proceed with, continuing the Company under the *Canada Business Corporations Act* (the "Continuance"), and will be, in part, a function of whether we are successful in identifying and completing appropriate acquisition opportunities. As such, there is currently no definitive time frame for this balance sheet optimization.

Management currently believes that the above financial targets, and the factors and assumptions underlying those targets, are reasonable in the current industry environment. However, there is no assurance that we will be able to achieve these targets or that the factors and assumptions underlying these targets will prove to be accurate. Our ability to achieve the above targets is subject to a number of risks, challenges and uncertainties that could cause actual future results to differ materially from these targets.

The above outlook and financial targets, and the assumptions and factors underlying them, constitute forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See "Cautionary note regarding forward-looking information".

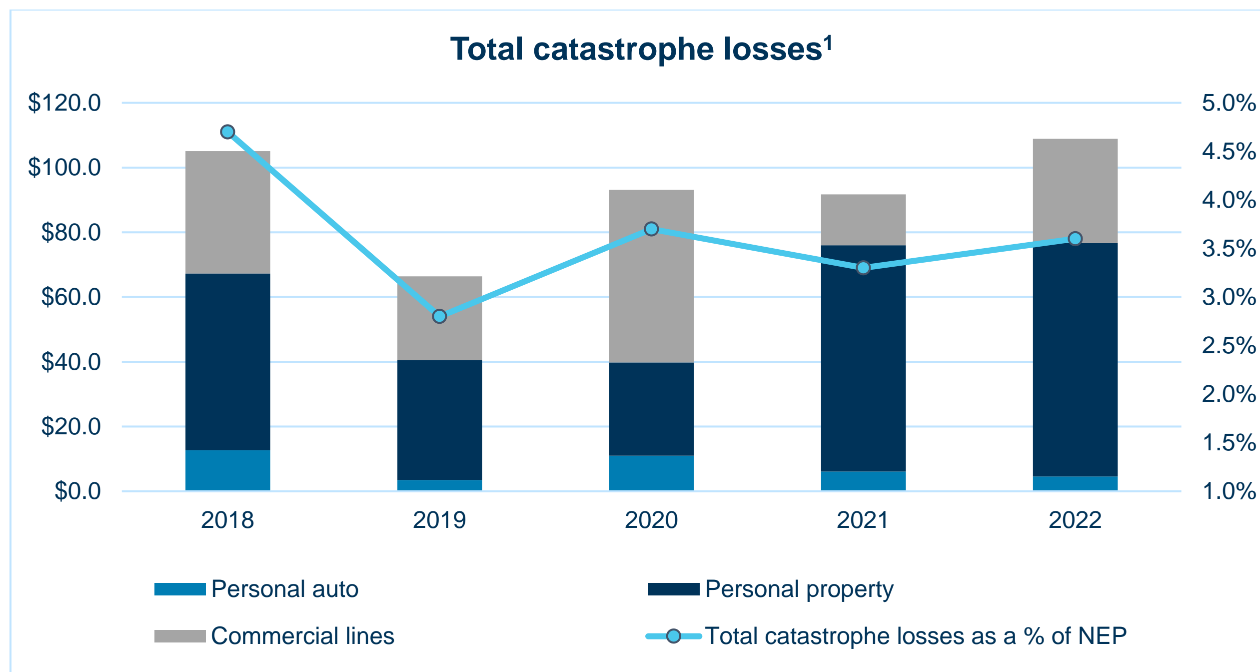
CATASTROPHE LOSSES

We consider losses to be catastrophe losses if they are the result of either i) an event causing gross losses in excess of $2 million, and generally greater than 100 claims, or ii) a single claim with a gross loss in excess of $3 million. Although often related to weather (such as wildfires, windstorms, or floods), catastrophe losses may also relate to non-weather events (such as large commercial fires or liability losses).

Increasing frequency and severity of extreme weather events have resulted in increased catastrophe events and claims. We respond to claims caused by weather-related events through our catastrophe response teams, our reinsurance program, and our claims vendors, who are evaluated with a view to whether they can offer quality service even when responding to the demands of catastrophe events.

We routinely enhance our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, with a view to confirming pricing, coverage options, risk accumulations, and claim liability estimates remain appropriate.

The volatility surrounding the frequency and severity of catastrophe losses is unpredictable and can have a significant impact on our underwriting performance by quarter and by line of business.



Notes:
(1) Catastrophe losses is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". Dollar amounts exclude reinstatement premiums, which are reflected in NEP.

We expect annual catastrophe losses of approximately 4% of our net earned premiums, reflecting our business mix and our reinsurance program for 2023. We generally expect approximately 60% of catastrophe losses to impact personal insurance and about 70% of the annual catastrophe loss estimate to occur during the second and third quarters.

We will consider publicly announcing the estimated catastrophe losses for a given quarter in advance of our earnings announcement with respect to that quarter when:

- Our catastrophe loss estimate, net of reinsurance, is expected to have an impact greater than $0.25 on operating earnings per share and is materially above our expectations for the quarter; or
- We believe that market expectations for the quarter's catastrophe losses are materially different than our actual experience.

If we decide to issue a public announcement, it will typically be issued once the required information is readily available following the end of the quarter.

5 — FINANCIAL POSITION

FINANCIAL HIGHLIGHTS AS AT DECEMBER 31, 2022:

- Our financial position remained strong with equity attributable to common shareholders exceeding $2.3 billion at the end of the year, which decreased slightly from December 31, 2021 driven by a significant decline in the value of our bond and equity portfolios as a result of the ongoing volatility in capital markets, largely offset by strong underwriting income and increasing net investment income
- Total assets increased by $425.4 million (5.4%) compared to December 31, 2021, due in part to goodwill and intangible assets arising from the acquisitions in the fourth quarter
- Gross claim liabilities decreased by $81.8 million (2.5%) compared to December 31, 2021 and benefitted from a $162.6 million discounting recovery

The following table summarizes our consolidated balance sheets as at December 31:

(in millions of dollars)	As at December 31, 2022	As at December 31, 2021	Change
ASSETS			
Cash and cash equivalents	$ 200.5	$ 387.3	$ (186.8)
Restricted cash	302.1	110.8	191.3
Investments	4,897.9	5,365.8	(467.9)
Premiums receivable	1,188.8	1,075.9	112.9
Income taxes receivable	81.7	0.2	81.5
Reinsurance receivable and recoverable	255.8	179.2	76.6
Deferred policy acquisition expenses	327.0	295.1	31.9
Property and equipment	83.8	57.0	26.8
Deferred income tax assets	55.0	62.5	(7.5)
Goodwill and intangible assets	771.6	219.7	551.9
Other assets	152.6	137.9	14.7
Total assets	$ 8,316.8	$ 7,891.4	$ 425.4
LIABILITIES			
Unearned premiums	1,765.4	1,599.2	166.2
Claim liabilities	3,254.3	3,336.1	(81.8)
Accounts payable and other liabilities	405.7	393.4	12.3
Income taxes payable	-	55.6	(55.6)
Deferred income tax liabilities	69.8	-	69.8
Demand loans	39.1	-	39.1
Demutualization amounts outstanding	302.1	110.8	191.3
Total liabilities	$ 5,836.4	$ 5,495.1	$ 341.3
EQUITY			
Share capital	2,254.2	2,307.8	(53.6)
Contributed surplus	40.2	19.3	20.9
Retained earnings (deficit)	179.3	(28.8)	208.1
Accumulated other comprehensive (loss) income	(101.8)	98.0	(199.8)
Equity attributable to common shareholders	2,371.9	2,396.3	(24.4)
Non-controlling interests	108.5	-	108.5
Total equity	$ 2,480.4	$ 2,396.3	$ 84.1
Total liabilities and equity	$ 8,316.8	$ 7,891.4	$ 425.4

CASH AND INVESTMENTS

The composition of our cash and cash equivalents and investments as at December 31, is as follows:

	As at December 31, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Cash and cash equivalents	$ 200.5	3.9%	$ 387.3	6.7%
Short-term investments	89.3	1.8%	88.8	1.5%
Bonds	3,923.7	77.0%	4,233.8	73.7%
Preferred stocks	298.0	5.8%	405.7	7.1%
Common stocks	517.7	10.2%	570.5	9.9%
Pooled funds	57.2	1.1%	42.7	0.7%
Commercial loans	12.0	0.2%	24.3	0.4%
Total investments	$ 4,897.9	96.1%	$ 5,365.8	93.3%
Total cash and cash equivalents, and investments	$ 5,098.4	100.0%	$ 5,753.1	100.0%

Total cash and cash equivalents and investments decreased in 2022, due primarily to cash consideration utilized for our increased ownership interest in McDougall, and a decrease in the market values of our investment portfolio arising from a significant increase in fixed income yields as well as the volatility in equity markets. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, increased slightly to 82.7% of the total portfolio as at December 31, 2022, compared with 81.9% as at December 31, 2021. We maintained a focus on a high-quality investment portfolio.

Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements, which provides further details pertaining to the classification and measurement of our financial instruments.

Investment sector mix

Our investment sector mix demonstrates the secure and liquid nature of our overall investment portfolio with a significant concentration in the government and financials sectors. As at December 31, the breakdown of these investments is as follows:

	As at December 31, 2022					As at December 31, 2021
(in millions of dollars, except as otherwise noted)	Short-term investments and bonds	Preferred stocks	Common stocks	Pooled funds	Total	Total
Government	59%	-	-	-	48%	49%
Financials	20%	68%	29%	9%	24%	29%
Energy	4%	17%	15%	3%	6%	4%
Communication services	5%	4%	6%	7%	6%	2%
Industrials	3%	-	12%	6%	4%	4%
Utilities	4%	10%	3%	15%	4%	4%
Consumer discretionary	2%	-	5%	9%	2%	2%
Materials	-	-	8%	2%	1%	1%
Consumer staples	1%	-	6%	5%	1%	1%
Information technology	-	-	10%	31%	1%	2%
Health care	-	-	4%	11%	1%	1%
Real estate	2%	1%	2%	2%	2%	1%
Total (%)	100%	100%	100%	100%	100%	100%
Total ($)	$ 4,013.0	$ 298.0	$ 517.7	$ 57.2	$ 4,885.9	$ 5,341.5

Investment credit quality

The tables below of credit ratings in our portfolio illustrate the credit quality of our fixed income securities and preferred stocks, respectively, as at December 31.

Credit rating[1] — bonds

	As at December 31, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
AAA	$ 1,325.4	33.8%	$ 1,072.6	25.4%
AA	1,034.1	26.4%	1,800.5	42.5%
A	926.9	23.6%	1,080.1	25.5%
BBB	606.0	15.4%	280.6	6.6%
BB	31.3	0.8%	-	-
Total bonds	$ 3,923.7	100.0%	$ 4,233.8	100.0%

[1] Using the lowest of Standard & Poor's and DBRS ratings.

Credit rating[1] — preferred stocks

	As at December 31, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
P1	$ 5.4	1.8%	$ 11.9	2.9%
P2	236.0	79.2%	305.4	75.3%
P3 or not rated	56.6	19.0%	88.4	21.8%
Total preferred stocks	$ 298.0	100.0%	$ 405.7	100.0%

[1] Using the lowest of Standard & Poor's and DBRS ratings.

We monitor the credit ratings of investments within our investment portfolio on an ongoing basis and take the necessary actions, in an attempt to ensure that a high level of quality is maintained. As at December 31, 2022, this resulted in 83.8% (December 31, 2021: 93.4%) of the bonds in the portfolio being rated "A-" or better and 81.0% (December 31, 2021: 78.2%) of the preferred stocks in the portfolio being rated "P2L" or better. "A-" and "P2L" represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively. The reduction in the credit rating profile of the bonds was due to deliberate portfolio positioning.

Investment portfolio region of issuer

The geographic mix of our investment portfolio as at December 31 is as follows:

	As at December 31, 2022		As at December 31, 2021	
(in millions of dollars, except as otherwise noted)	**Carrying value**	**Percent of carrying value**	**Carrying value**	**Percent of carrying value**
Canada	$ 4,669.9	95.6%	$ 5,112.6	95.7%
United States	152.8	3.1%	164.6	3.1%
Europe	36.9	0.8%	37.0	0.7%
Other	26.3	0.5%	27.3	0.5%
Total	$ 4,885.9	100.0%	$ 5,341.5	100.0%

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange is outlined in Section 11 — "Risk management and corporate governance".

Unrealized (losses) gains on AFS securities

The unrealized (losses) gains on AFS securities by type of security as at December 31 are as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2022	As at December 31, 2021
Short-term investments	$ 0.2	$ 0.1
Bonds	(115.6)	9.3
Preferred stocks	(80.9)	10.9
Common stocks	56.4	106.8
Pooled funds	(6.7)	0.1
Unrealized (losses) gains	$ (146.6)	$ 127.2

The unrealized losses in our AFS investment portfolio as at December 31, 2022 were driven by losses on bonds due to a significant increase in fixed income yields, losses on preferred stocks, and lower gains on common stocks as a result of the volatility in capital markets.

PREMIUMS RECEIVABLE, DEFERRED POLICY ACQUISITION EXPENSES, AND UNEARNED PREMIUMS

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased as at December 31, 2022, driven primarily by GWP growth in 2022.

INCOME TAXES RECEIVABLE AND PAYABLE

Income tax amounts outstanding shifted from a net payable of $55.4 million as at December 31, 2021, to a receivable of $81.7 million as at December 31, 2022 due primarily to final payments made in the first quarter of 2022 for prior year ends, income tax instalments paid in 2022, and the tax impact of unrealized losses in our investment portfolio generating an overall income tax recovery for the year.

REINSURANCE RECEIVABLE AND RECOVERABLE

Reinsurance receivable and recoverable increased as at December 31, 2022 due primarily to higher recoveries for catastrophe and large losses, and the increased impact from the growing large account relationships in our commercial segment, partially offset by the impact of the quota share treaty which was not renewed in 2022.

Consistent with industry practice, our reinsurance receivables and amounts recoverable from licensed Canadian reinsurers ($183.1 million as at December 31, 2022; $143.5 million as at December 31, 2021) are usually unsecured. Canadian regulatory requirements, as set out by OSFI, require these reinsurers to maintain adequate assets to meet their Canadian obligations. Claim liabilities take precedence over the reinsurers' subordinated creditors. Amounts receivable and recoverable from unregistered reinsurers are secured by cash deposits and marketable securities.

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets increased primarily related to the goodwill and intangible assets arising from the acquisitions of McDougall, T.G Colley & Sons Limited, and Integrisure Group Insurance Inc. on October 3, 2022.

OTHER ASSETS

Other assets increased $14.7 million as at December 31, 2022 due in part to an increase in our net pension asset driven by changes in the discount rate used to determine the benefit obligation.

NET CLAIM LIABILITIES

The change in our net unpaid claim liabilities as at December 31 is as follows

(in millions of dollars)	As at December 31, 2022	As at December 31, 2021
Net unpaid claim liabilities, beginning of year	$ 3,202.1	$ 2,957.1
Current year claims incurred	2,080.4	1,797.5
Prior year favourable claims development	(92.5)	(76.0)
Net claims and adjustment expenses	$ 1,987.9	$ 1,721.5
Impact of discounting (including PfAD)	(162.6)	(44.7)
Claims paid during the year	(1,979.7)	(1,431.8)
Net unpaid claim liabilities, end of year	$ 3,047.7	$ 3,202.1

The net unpaid claim liabilities (discounted) as at December 31, 2022 decreased by 4.8% or $154.4 million from December 31, 2021 and benefitted from the impact of discounting. The main components of the discounted unpaid claim liabilities are case reserves, undiscounted IBNR, undiscounted internal claims expense, and the discounting impact thereon.

The level of prior year claims development as a percentage of opening net unpaid claim liabilities and the impact on the claims ratio by fiscal year, are as follows:

(in millions of dollars, except as otherwise noted)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net unpaid claim liabilities, beginning of year, undiscounted	$ 3,043.8	$ 2,754.1	$ 2,654.0	$ 2,555.2	$ 2,410.4	$ 2,199.7	$ 2,122.8	$ 2,163.3	$ 2,108.6	$ 2,052.1
(Favourable) adverse development on prior year claims, undiscounted	$ (92.5)	$ (76.0)	$ (29.6)	$ (37.9)	$ (18.8)	$ 32.6	$ (40.1)	$ (73.1)	$ (2.9)	$ (63.0)
(Favourable) adverse development on prior year closing claims, undiscounted	(3.0%)	(2.8%)	(1.1%)	(1.5%)	(0.8%)	1.5%	(1.9%)	(3.4%)	(0.1%)	(3.1%)
Impact on claims ratio[1]	(2.8%)	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)

Notes:
(1) The ratio of prior year (favourable) adverse claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities increased as at December 31, 2022 due primarily to an increase in commissions payable and an increase in building leases. These were partially offset by the cash settlement in the year of MTIP awards granted in 2019.

EQUITY

Equity attributable to common shareholders decreased slightly by $24.4 million in 2022 or 1%, driven by volatility in capital markets, including significant increases in fixed income yields which resulted in declines in the market value of our available for sale bond portfolio. These were largely offset by strong underwriting income and increasing net investment income, as well as a $67.0 million revaluation gain on our previous ownership interest in McDougall.

On February 10, 2022, the Board of Directors declared a $0.175 per share dividend (representing an inaugural quarterly amount of $0.125 per share in respect of the first quarter of 2022 in addition to $0.05 per share for the period between the IPO on November 23, 2021 and December 31, 2021). On May 12, August 2, and November 10, 2022, the Board of Directors declared a $0.125 per share dividend. On February 9, 2023, the Board of Directors declared a $0.1375 per share dividend, payable on March 28, 2023 to shareholders of record at the close of business on March 15, 2023. This represents a 10% increase over the level of ordinary quarterly dividends paid in 2022, and is consistent with our objective to grow our dividend over time.

6 — SELECTED ANNUAL INFORMATION AND SUMMARY OF QUARTERLY RESULTS

(in millions of dollars, except as otherwise noted)	For the years ended December 31, 2022	2021	2020
Gross written premiums	$ 3,613.8	$ 3,231.4	$ 2,814.7
Net earned premiums	$ 3,248.6	$ 2,833.6	$ 2,508.7
Underwriting income	$ 192.3	$ 194.5	$ 136.4
Net income	$ 252.6	$ 213.2	$ 153.9
Net income attributable to common shareholders	$ 252.0	$ 213.2	$ 153.9
Earnings per common share, basic (in dollars)	$ 2.19	$ 2.03	$ 1.48
Earnings per common share, diluted (in dollars)	$ 2.15	$ 2.02	$ 1.48
Operating earnings per common share (in dollars)	$ 2.04	$ 2.09	$ 1.77
Total assets (As at December 31)	$ 8,316.8	$ 7,891.4	$ 6,620.3

(in millions of dollars, except as otherwise noted)	For the three months ended December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Gross written premiums	$ 942.5	$ 944.1	$ 984.7	$ 742.5	$ 846.6	$ 851.5	$ 874.6	$ 658.7
Net earned premiums	$ 850.6	$ 830.0	$ 799.6	$ 768.4	$ 745.0	$ 725.1	$ 697.2	$ 666.3
Underwriting income	$ 70.2	$ 27.9	$ 34.0	$ 60.2	$ 40.3	$ 55.1	$ 41.2	$ 58.0
Net income	$ 142.2	$ 41.1	$ 21.0	$ 48.3	$ 33.7	$ 53.3	$ 43.9	$ 82.4
Net income attributable to common shareholders	$ 141.6	$ 41.1	$ 21.0	$ 48.3	$ 33.7	$ 53.3	$ 43.9	$ 82.4
Earnings per common share (in dollars)								
Basic	$ 1.23	$ 0.36	$ 0.18	$ 0.42	$ 0.31	$ 0.51	$ 0.42	$ 0.79
Diluted	$ 1.21	$ 0.35	$ 0.18	$ 0.41	$ 0.31	$ 0.51	$ 0.42	$ 0.79
Operating earnings per common share (in dollars)	$ 0.67	$ 0.40	$ 0.42	$ 0.55	$ 0.42	$ 0.58	$ 0.51	$ 0.58

The P&C insurance business is seasonal in nature. As such, underwriting income may vary significantly between quarters, particularly due to weather-related losses. Net income is further impacted by fluctuations in investment gains and losses. In particular, net income in the first quarter of 2021 benefitted from the recognition from other comprehensive income of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers. Results for 2020 and 2021 were impacted by reduced auto claims frequency due primarily to the COVID-19 pandemic. Auto claims frequency in 2022 has started to increase as driving volumes began to normalize toward pre-pandemic levels. The second quarter of 2022 included an investment impairment charge of $19.3 million, reflective of the significant volatility in equity markets. The fourth quarter of 2022 included a revaluation gain of $67.0 million on our previous ownership interest in McDougall.

The common shares issued upon the Company’s IPO on November 23, 2021, excluding the exercise of the over-allotment option granted to the underwriters of the IPO (the “Over-Allotment”) and the additional common shares purchased pursuant to the subscription agreement entered into with Healthcare of Ontario Pension Plan Trust Fund (“HOOPP”) (the “Anti-Dilution Adjustment”), were included in the weighted average common shares outstanding used in the earnings per share calculation in each quarter of 2021 consistent with a reflection of the IPO as an exchange of ownership instruments without additional resources being received. The Over-Allotment and Anti-Dilution Adjustment were included in the weighted average common shares outstanding calculation commencing from November 23, 2021, the date of the IPO.

7 — LIQUIDITY AND CAPITAL RESOURCES

CAPITAL MANAGEMENT FRAMEWORK

Capital deployment is carefully considered within the context of our corporate objectives and capital management related policies. This includes the impact of any capital deployment on our key operating and risk metrics. Our objectives when managing capital include:

- Maximizing long-term shareholder value through capital optimization and establishment of flexible capital management tools to support the business strategy, while
- Maintaining strong regulatory capital in our operating insurance entities to ensure policyholders are well protected

Capital deployment will be considered using the following priorities:

Organic Growth	We retain capital to support the growth in our premium volumes as well as invest in talent and technology that advance our strategic objectives
Common Shareholder Dividends	We intend to have a sustainable and growing dividend per common share that will be reviewed on a regular basis
Inorganic Growth	We intend to actively pursue carrier and distribution acquisition opportunities in the Canadian market. To fund these transactions, we expect to utilize excess capital, introduce leverage and, if required, access the equity capital markets
Share Buybacks	We will consider the use of share buybacks as a flexible capital management tool

On May 12, 2022, we announced that we had received the necessary approvals to commence an NCIB. In connection with the NCIB, we may, during the period commencing May 17, 2022 and ending May 16, 2023, purchase up to 3,476,781 common shares, representing 3% of our issued and outstanding common shares. As at December 31, 2022, no common shares had been repurchased and cancelled under the NCIB.

Regulatory capital

The amount of capital required in any company is dependent on its risk profile and strategic plans, as well as regulatory requirements. The Company actively monitors and manages capital with the objective of maintaining levels that are above the relevant internal and regulatory minimum capital requirements:

- Each of our insurance subsidiaries are subject to regulatory capital requirements established by OSFI and the *Insurance Companies Act* (Canada) ("ICA"). OSFI evaluates capital adequacy through the Minimum Capital Test ("MCT"), which measures available capital against required risk-weighted capital.
- These entities are each required, at a minimum, to maintain an MCT ratio of 100%.
- OSFI has also established a regulatory supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.

Management actively monitors the MCT and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the estimated impact on capital before entering into significant transactions to seek to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels. The Board of Directors reviews the MCT on, at least, a quarterly basis. In accordance with regulatory requirements and our capital management policies, the Board of Directors has set internal targets at levels higher and more stringent than OSFI's minimum requirements. Management also conducts its own risk and solvency assessment on at least an annual basis and provides regular updates to its Management Risk Committee, the Risk Review Committee, and the Board of Directors. Regulatory capital guidelines change from time to time and may impact our capital levels. We carefully monitor all proposed and actual changes to those guidelines.

OSFI has changed the calculation of MCT as a result of IFRS 17. We are in the process of finalizing the conversion to IFRS 17, including quantification of the change to MCT. While we anticipate this may impact the calculation of the regulatory capital ratio, we do not believe the change in standard impacts significantly the way in which we manage our capital position, nor our assessment of our financial capacity and resources.

Capital position

All of our regulated P&C insurance subsidiaries are well capitalized on an individual basis, with capital levels in excess of regulatory supervisory minimum levels and our internal capital action levels. The table below shows the consolidated regulatory capital position as at December 31 for Definity Insurance and the financial capacity of the Company. Capital available and capital required included in the table below are determined in the manner prescribed by OSFI.

(in millions of dollars, except as otherwise noted)	**As at December 31, 2022**	**As at December 31, 2021**
Capital available[1]	$ 1,323.6	$ 1,789.1
Capital required[1]	$ 647.5	$ 651.6
MCT %[1]	204%	275%
Excess capital at 200% for Definity Insurance	$ 28.7	$ 485.9
Additional capital at Definity Financial Corporation	$ 357.5	$ 273.4
Total excess capital	$ 386.2	$ 759.3
Leverage capacity[2,3]	$ 272.3	$ 298.5
Financial capacity[3]	$ 658.5	$ 1,057.8

[1] Consolidated Definity Insurance.
[2] Approximately $108.7 million (December 31, 2021: $117.9 million) of the 2% debt limit under the ICA was utilized as at December 31, 2022, including demand loans of $39.1 million (December 31, 2021: nil) which has reduced the amount of leverage capacity.
[3] Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The MCT ratio as at December 31, 2022 decreased from December 31, 2021 due mainly to a reduction in stated capital of Definity Insurance and the subsequent transfer of $400 million of investments and cash from Definity Insurance and certain of the other insurance subsidiaries to Definity. This transaction positions Definity Insurance within its expected operating range and more efficiently positions excess capital in the group structure. As a result of this transaction, the consolidated excess capital at 200% at Definity was unchanged. The decrease in consolidated excess capital at 200% MCT relates primarily to the deployment of funds in connection with broker acquisitions in the year as well as the impact of volatility in capital markets, including significant increases in fixed income yields, which resulted in declines in the market value of our investments.

In 2022, the federal government amended demutualization regulations applicable to P&C insurance companies under the ICA. The amendments: (1) created a path for Definity, as a holding company of a demutualized insurance company, to apply for continuance from the ICA to the *Canada Business Corporations Act* (the "CBCA") during the period for which that holding company is required to remain widely held after demutualization, and (2) increased the duration of that restricted ownership period from two to four years.

In 2023, Definity announced that it will begin the process to apply to the Minister of Finance for approval to continue under the CBCA. The application has been submitted to the federal Minister of Finance and will be subject to government and regulatory approval. The new restricted ownership period came into effect with the regulatory amendments and automatically extended the requirement for Definity to be widely held until November 22, 2025. One of the effects of Continuance is expected to be, among other things, that Definity will no longer be subject to the leverage restrictions applicable under the ICA.

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a framework for federally-regulated insurers to internally assess their risks and determine the level of capital required to support future solvency. The ORSA documents how risk assessment and capital management are integrated into our decision-making processes and are monitored to maintain financial viability.

We integrate the ORSA with our enterprise risk management framework, management reporting, and decision-making processes. Our Board of Directors, Risk Review Committee, and Management Risk Committee review and provide challenge, advice, and guidance on the ORSA, critically assessing assumptions and results to confirm we consider them to be reasonable in the circumstances.

We develop the ORSA by reviewing our key risks and identifying key risk indicators, then performing a range of quantitative risk sensitivity, stress testing, and other analyses, to relate our key risks to capital requirements. In conjunction with the appointed actuary and the chief actuary, we aligned financial condition testing and ORSA where appropriate, and developed a framework to segment economic capital associated with the business plan to enable more granular measurement of capital consumption. This process includes thoroughly assessing the methodology for relating risks to capital reflected in OSFI's MCT guidelines and determining the appropriateness to our risk profile. As that regulatory methodology has been developed with consideration to the entire industry, some capital factors are more suitable than others in addressing our risks. Depending on the risk, the regulatory approach may need to be modified to our circumstances, or we may determine that a different methodology is appropriate. We may also determine that the regulatory method is adequate and adopt it without modification. We incorporate the output from our economic capital model to evaluate the required capital for insurance, market, and credit risks. This results in the ORSA capital requirements using both deterministic and stochastic methodologies. Stress testing is then utilized to assess the resiliency of our capital under a range of adverse conditions, including extreme scenarios. The ORSA is integrated into the budgeting and planning process to determine our ability to meet internal and regulatory capital targets in the future, and to identify contingency plans and procedures should capital levels threaten to fall below pre-determined early-warning levels, as specified in our capital management policy. Our ORSA capital level is higher than our internal targets established in our capital management policy.

We do not expect the change to IFRS 17 to have a significant impact on how we measure ORSA.

REINSURANCE

We reinsure certain risks with reinsurers to limit our maximum loss for catastrophe events or other significant large losses. Our objectives related to reinsurance are capital protection, reduction in earnings volatility, increase in underwriting capacity, and accessing expertise of our reinsurer partners. The placement of ceded reinsurance is mainly on an excess-of-loss basis (per event or per risk), but some proportional cessions are made for specific portfolios. Ceded reinsurance complies with regulatory guidelines, including with respect to coverage limits for Canadian earthquake risk.

Annually, we review and adjust our reinsurance coverage to reflect our current exposures, capital base, and growth projections. The most material components of our reinsurance program are the catastrophe treaties, for which we provide more detail in the table below:

(in millions of dollars)	2023	2022
Catastrophe – primary		
Net company retentions[1]	40.0	30.0
Maximum limit[2]	1,950.0	1,800.0
Catastrophe – aggregate		
Annual aggregate deductible[3]	65.0	65.0
Annual aggregate limit[3]	25.0	25.0

[1] Excludes reinstatement premiums, co-participations between the retention level and maximum limit, and tax impacts.
[2] Excludes co-participation.
[3] Contributing event to the annual aggregate deductible and limit is a maximum of $27 million on events above $3 million as at December 31, 2023 and 2022.

We retain participations on reinsurance layers between the retention and maximum limit averaging 8.6% for 2023 (2022: 3.4%) including an average of 42.5% between the retention and up to a $100 million loss (2022: 0%). We also continued with our 100% placement of the catastrophe aggregate treaty in 2023 on the same terms as 2022. This treaty extends to December 31, 2024.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer's subordinated creditors. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

We ensure our placement of reinsurance is diversified to avoid excessive concentration to a specific reinsurance group. We are selective with respect to our choice of reinsurers, placing reinsurance with only those reinsurers having a strong financial condition.

FINANCIAL STRENGTH AND ISSUER RATINGS

Strong issuer and financial strength ratings have been assigned to Definity, and its subsidiary Definity Insurance, by major credit rating agencies. The ratings are reflective of Definity's strong capitalization and liquidity, extensive distribution network, and established enterprise risk management framework. The ratings also help to indicate Definity's ability to meet its obligations to policyholders, creditors, and others.

	Credit Rating Agency	Rating	Outlook	Date
Financial strength ratings				
Definity Insurance	AM Best	A- (Excellent)	Stable	November 18, 2022
Definity Insurance	DBRS	A (low)	Positive	July 8, 2022
Issuer rating				
Definity	DBRS	BBB	Positive	July 8, 2022

CASH FLOWS

As at December 31, 2022, we had $200.5 million (December 31, 2021: $387.3 million) of cash and cash equivalents, $302.1 million of restricted cash (December 31, 2021: $110.8 million), and $89.3 million (December 31, 2021: $88.8 million) of short-term investments. We also have a highly liquid investment portfolio comprised of actively-traded securities, including Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly-traded Canadian and foreign equities and pooled funds. We believe that our internal resources will provide sufficient funds to fulfill our operating cash requirements during the next 12 months. The liquidity policy seeks to ensure that we have sufficient cash and liquid resources to meet our financial obligations and to support our future growth initiatives, and that excess cash is appropriately invested.

On August 2, 2022, we renewed our $150 million unsecured committed credit facility, which will automatically increase to $600 million if and when the Company is continued under the CBCA. This latter amount represents an increase of $200 million over the pre-existing facility, providing us with increased financial capacity after continuance. The facility has a term ending on July 22, 2027, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at February 9, 2023, we are in compliance with the covenants and no amounts have been drawn under this facility.

A summary of cash flows for the three months and years ended December 31, 2022 and 2021 is as follows:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	2022	2021	2022	2021
Operating activities				
Net cash provided by operating activities	$ 112.5	$ 176.7	$ 305.8	$ 655.2
Investing activities				
Investments purchased, net of investments sold	(35.6)	(399.3)	(54.2)	(1,008.1)
Commercial loans collected, net of commercial loans advanced	2.6	10.3	12.3	13.3
Other assets purchased	(20.4)	(6.3)	(90.8)	(49.4)
Business acquisitions, net of cash acquired	(227.0)	-	(242.0)	-
Net cash used in investing activities	(280.4)	(395.3)	(374.7)	(1,044.2)
Financing activities				
Dividends paid on common shares	(14.3)	-	(63.3)	-
Common shares purchased and held in trust	(13.2)	-	(53.6)	-
Change in demutualization amounts outstanding	(8.3)	-	191.3	-
Repayment of demand loans	(1.0)	-	(1.0)	-
Net proceeds from the issuance of common shares	-	2,285.7	-	2,285.7
Distribution of demutualization benefits	-	(1,908.9)	-	(1,908.9)
Net cash (used in) provided by financing activities	(36.8)	376.8	73.4	376.8
Net (decrease) increase in cash and cash equivalents, and restricted cash	$ (204.7)	$ 158.2	$ 4.5	$ (12.2)

Cash Provided by Operating Activities in the Three Months and Years Ended December 31

Cash provided by operating activities decreased in the fourth quarter of 2022 and for the year, driven by increased claims paid, increased broker commission payments due to GWP growth and an increase in broker underwriting profitability, payments related to employee salaries and bonuses, and premium taxes paid. For the year, cash provided by operating activities also decreased due to an increase in income taxes paid. These were partially offset by an increase in premiums collected due to the strong growth in GWP.

Cash Used in Investing Activities in the Three Months and Years Ended December 31

Cash used in investing activities decreased in the fourth quarter of 2022 and for the year, due primarily to a decrease in net investments purchased, partially offset by the business acquisitions in the fourth quarter of 2022.

Cash (Used in) Provided by Financing Activities in the Three Months and Years Ended December 31

Cash provided by financing activities decreased due primarily to the proceeds in 2021 from the IPO net of the distribution of cash benefits of the demutualization to eligible recipients. The amounts outstanding to eligible recipients are reflected as restricted cash. The increase in demutualization amounts outstanding as at the end of 2022 was largely driven by the reclassification of amounts represented by uncashed cheques distributed in the fourth quarter of 2021. Eligible policyholders became "Lost Recipients" in accordance with the Conversion Plan because they had not acted upon their demutualization benefits within six months of the date on which those benefits were sent. Accordingly, there was a corresponding increase in both demutualization amounts outstanding and restricted cash. We continue to make efforts to facilitate the unification of the remaining amounts outstanding with the eligible recipients.

CONTRACTUAL OBLIGATIONS

Our contractual obligations include claim liabilities, lease commitments, certain non-cancellable commitments, and principal payments on demand loans. Our non-owned buildings, motor vehicles, computers, and office equipment are supplied through leases. The future contractual aggregate minimum payments for our claim liabilities, non-cancellable leases and other commitments are outlined below.

(in millions of dollars)	As at December 31, 2022		
	Less than 1 year	**Over 1 to 5 years**	**More than 5 years**
Claim liabilities (undiscounted)	$ 1,165.3	$ 1,523.8	$ 571.1
Leases (undiscounted) and other commitments	47.3	86.5	24.2
Demand loans	3.4	13.5	22.2
Total	$ 1,216.0	$ 1,623.8	$ 617.5

OFF-BALANCE SHEET LIABILITIES AND CONTINGENCIES

We are subject to litigation relating to claims made in respect of insurance policies written by us, as well as other litigation arising in the normal course of conducting our business. We are of the opinion that this non-claims litigation will not have a significant effect on our financial position, results of operations, or cash flows. Refer to Section 11 — "Risk management and corporate governance", Reserve estimate risk, which describes our process for ensuring appropriate provisions are recorded for reported and unreported claims.

We participate in a securities lending program managed by a major Canadian and U.S. financial institution, whereby we lend securities we own to borrowers to allow them to meet delivery commitments. The lending agents assume the risk of borrower default associated with the lending activity. As at December 31, 2022, securities with an estimated fair value of $841.6 million (December 31, 2021: $598.9 million) have been loaned and securities with an estimated fair value of $874.6 million (December 31, 2021: $620.1 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2022 was 100.0% (December 31, 2021: 100.0%) held in cash and government-backed securities. The securities loaned under this program have not been removed from "Investments" in the consolidated balance sheets because we retain the risks and rewards of ownership.

The financial compensation we receive in exchange for securities lending is reflected in the consolidated statements of income in "Net investment income".

8 — RELATED PARTY TRANSACTIONS

From time to time, we enter into transactions in the normal course of business with certain directors, senior officers, and companies with which we are related. These transactions are measured at their exchange amounts. Management has established procedures to review and approve transactions with related parties and reports annually to the Corporate Governance Committee on the procedures followed and the results of the review.

The compensation of key management personnel, defined as the Company's directors, president and chief executive officer, executive vice-presidents, and senior vice-presidents, is as follows:

	Years ended December 31,	
(in millions of dollars)	2022	2021
Salaries	$ 6.1	$ 5.3
Short-term incentive plan	5.0	5.4
Medium-term and long-term incentive plans	13.2	14.0
Deferred share unit plans and share ownership plan	3.1	-
Retention and signing bonuses	1.4	1.4
Post-employment defined contribution pension benefits	0.8	0.7
Other short-term employment benefits	0.1	0.1
Directors' fees*	1.5	1.8
Total	$ 31.2	$ 28.7

*Directors' fees disclosed above include fees accrued in respect of all controlled entities in the group.

POST-EMPLOYMENT BENEFIT PLANS

We provide certain pension and other post-employment benefits through defined benefit, defined contribution, and other post-employment benefit plans to eligible participants upon retirement.

The contributory defined benefit pension plans provide pension benefits based on length of service and final average pensionable earnings. The most recent actuarial valuation was prepared as of January 1, 2020. The contribution to be paid by us is determined each year by our pension actuaries. Our funding policy is to make contributions in amounts that are required to discharge the benefit obligations over the life of the plan. Based on the latest actuarial valuations of all its plans, the total required contributions by us to the pension plans are expected to be $1.9 million in 2023. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2022 were nil (2021: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority of Ontario.

Plan assets associated with the pension plans are funded pursuant to a trust agreement through a trust company as selected by us. The Executive Investment Committee and the Human Resources and Compensation Committee assist the Board in fulfilling its responsibility for governance of the plans and assign or delegate certain oversight and administrative duties to the Management Pension Committee as appropriate.

Under the defined contribution component of the pension plan, we contribute a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan totalled $20.1 million in 2022 (2021: $15.9 million).

9 — INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) AND DISCLOSURE CONTROLS AND PROCEDURES

MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We are responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is reported to management on a timely basis so that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, or changes in conditions, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of error or fraud, if any, within the Company have been detected.

As required by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2022, subject to the inherent limitations noted above.

MANAGEMENT'S EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

We are also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

Management has limited the scope of effectiveness of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of businesses acquired not more than 365 days before December 31, 2022. Refer to Note 6 — "Business combinations" of our audited consolidated financial statements for the impact on the financial statements. Management will be removing this limitation within the required regulatory timeline.

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2022, subject to the inherent limitations noted below.

While we continue to monitor, assess, and revise our system of internal controls, it should be recognized that due to inherent limitations or changes in conditions, any control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As such, an evaluation of those control systems can provide only reasonable assurance that all control issues and instances of error or fraud, if any, within the Company have been detected.

Projections of any control effectiveness evaluation to future periods are subject to the risk that the controls may become inadequate due to potential changes in conditions or possible deteriorations in the degree of compliance with policies or procedures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting in 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

10 — CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of our audited consolidated financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that materially affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of revenues and expenses during the year. Actual results could differ materially from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. Refer to Note 3 — "Summary of significant accounting policies" of our audited consolidated financial statements for a summary of our significant accounting policies.

The most complex and significant judgments, estimates, and assumptions used in preparing our audited consolidated financial statements are discussed below:

JUDGMENTS

In the process of applying our accounting policies, we have applied judgment in our assessment of the evaluation of current obligations requiring provisions, the determination of cash-generating units, the identification of the indicators of impairment for property and equipment, goodwill, and intangible assets, the identification of objective evidence of impairment for financial instruments, the determination of control or significant influence over investees, and the recoverability and recognition of deferred tax assets.

ESTIMATES AND ASSUMPTIONS

Management has made a variety of estimates that have had a significant impact in the determination of the carrying amounts of certain key assets and liabilities, which are discussed in Note 5 — "Significant accounting judgments, estimates and assumptions" of our audited consolidated financial statements. The key estimates include, but are not limited to, the following:

- Valuation of claim liabilities
- Impairment of long-lived assets
- Impairment of financial assets
- Valuation of post-employment benefits obligation
- Measurement of income taxes

FUTURE ACCOUNTING AND REPORTING CHANGES

IFRS standards issued but not yet effective are discussed in Note 4 — "Standards issued but not yet effective" of our audited consolidated financial statements. We have provided an update surrounding our transition to IFRS 17 and IFRS 9, including our current accounting policy decisions and the expected quantitative and qualitative impacts on our financial statement presentation. We are still in the process of finalizing our conversion amounts but estimate that our equity attributable to common shareholders as of January 1, 2022 will increase by approximately 5-6% on the adoption of IFRS 17 primarily as a result of the change from PfAD to risk adjustment in calculating claim liabilities and the deferral of acquisition costs less the impact of onerous contracts.

The presentation and disclosure differences under IFRS 17 are expected to be significant. We are currently assessing the impact of IFRS 17 and IFRS 9 on our MD&A presentation, but do not expect it to have a material impact on how we describe our business. We expect these new accounting standards will have no significant impact on how we manage and run our operations or how we measure our performance. IFRS 9 will result primarily in reclassification differences between net income and other comprehensive (loss) income for certain of our investments. We expect there will be additional volatility in net income and earnings per common share due to IFRS 17 and IFRS 9, although there will be no associated impact on operating net income.

In July 2022, OSFI released the final MCT 2023 guidelines to reflect the implementation of IFRS 17 in 2023. We are in the process of finalizing the conversion to IFRS 17, including quantification of the change to MCT. While we anticipate this may impact the calculation of the regulatory capital ratio, we do not believe the change in standard impacts significantly the way in which we manage our capital position, nor our assessment of our financial capacity and resources.

11 — RISK MANAGEMENT AND CORPORATE GOVERNANCE

RISK MANAGEMENT

Overview

A strong risk management culture contributes to making sound business decisions, both strategically and operationally. Our corporate governance and enterprise risk management frameworks are designed to provide reasonable assurance that:

(i) our business is understood from a risk perspective and our actions are consistent with our governing objectives, risk management capabilities, risk-taking capacity, and risk appetite; and
(ii) we maintain an appropriate risk and reward balance to protect us from events that have the potential to materially impair our financial strength or our achievement of business objectives.

Our enterprise risk management framework is rooted in the understanding that we are in the business of taking risk for an appropriate return. Balancing risk and reward is achieved through dynamic alignment between business strategy and risk appetite, diversifying risk, seeking appropriate compensation for risk, managing risk through preventive, detective, and mitigating controls, and transferring risk to third parties, where appropriate. We have an integrated approach to the identification, assessment, monitoring, reporting and mitigation of risks across the organization, including emerging risks. All identified top and emerging risks are assessed relative to their potential impact on our corporate strategy, competitive position, operational results, reputation, and financial condition.

The Board, directly or through its Risk Review Committee, oversees the effective implementation of the enterprise risk management framework providing challenge, advice and guidance to senior management to confirm appropriate risk management policies are in place, the effectiveness and outcomes of risk management processes and the decisions and actions of senior management are consistent with our business plans, strategy, and risk appetite. Regular reports on our risk profile, including significant risks, risk appetite exposures, and significant exceptions to risk management policies and controls, are provided to senior management, the Board, and its committees.

Alignment

We seek to align our risk appetite with our overall strategy and business objectives by considering whether risks are core, non-core, or collateral in nature.

Core risks are risks that we are willing to accept in order to achieve our return expectations and business objectives, and primarily consist of insurance risks and financial risks. *Non-core risks* are those associated with activities outside of our risk appetite and approved business strategies, and are therefore generally avoided, regardless of expected returns. *Collateral risks* are those we incur as a by-product of pursuing the risk and return optimization of core risks. Operational risks often fall into this category. We endeavour to mitigate collateral risks to the extent that the benefit of risk reduction aligns with or exceeds the cost of mitigation.

We also seek to align our risk appetite with our risk management capabilities. We actively seek profitable risk-taking opportunities in those areas where we have established risk management capabilities, and seek to avoid risks that are beyond those capabilities.

CORPORATE GOVERNANCE AND ACCOUNTABILITY

Our enterprise risk management framework sets out guidance in relation to the responsibility and authority for risk-taking, risk governance and oversight, and risk control.

Governance Structure

BOARD OF DIRECTORS				
Audit Committee	Corporate Governance Committee	Human Resources & Compensation Committee	Risk Review Committee	Ad hoc committees (as required)

Senior Management

(including management committees e.g. Executive Leadership Committee, Management Risk Committee, Executive Investment Committee, Management Pension Committee, Public Disclosure Committee, ESG Steering Committee, Capital and Treasury Steering Committee)

Risk management occurs at all levels of the organization. The Board approves and oversees, among other things, our risk appetite, our internal control framework, our Code of Business Conduct, and significant policies, plans, and strategic initiatives related to the management of, or that materially impact, capital and liquidity. It also provides challenge, advice, and guidance to senior management on the ORSA, our business performance, and the effectiveness and outcomes of risk management practices, as well as significant capital, operational, business, risk, and crisis management policies. To assist the Board in confirming that the key risks are appropriately identified, critically assessed, and adequately managed, certain risk management accountabilities have been delegated to the following Board committees:

BOARD OF DIRECTORS COMMITTEES	
Audit Committee	The Audit Committee, composed entirely of independent directors, is responsible for overseeing the integrity of our financial statements and related public disclosures; the qualifications, independence, appointment, and performance of our internal and external auditors; and the design, implementation, and evaluation of our internal controls, including internal controls over financial reporting and our disclosure controls.
Corporate Governance Committee	The Corporate Governance Committee, composed entirely of independent directors, is responsible for overseeing development of effective corporate governance guidelines and processes, reviewing policies and processes to sustain ethical behavior, assessing the effectiveness of the Board of Directors and its committees as well as the contributions of individual directors, and identifying and recommending for election as directors those individuals with appropriate competencies, skills, and experience.
Human Resources and Compensation Committee	The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for overseeing our human resources practices and policies. This includes reviewing our overall compensation philosophy, approving compensation for our senior executives, and reviewing retention, development, and succession plans.

Risk Review Committee	The Risk Review Committee, composed entirely of independent directors, is responsible for the oversight of the enterprise-wide risk management framework and the regulatory compliance management program. The Risk Review Committee reviews and provides challenge, advice, and guidance on the ORSA and the results of our regulatory compliance management program. It approves significant enterprise risk management policies and articulation of risk appetite. It also monitors our key and emerging risks.

From time to time, the Board may also strike ad hoc committees to provide dedicated oversight to key strategic initiatives.

The Board has delegated certain risk management responsibilities to the following executive management committees:

- Management Risk Committee
- Executive Investment Committee
- Management Pension Committee

Three Line of Defence Risk Governance Model

We have implemented a three line of defence risk governance model, consisting of front-line business operations (first line), enterprise risk management and compliance functions and executive management committees (second line), and internal audit (third line). Each line of defence has internal quality assurance and validation practices to oversee and confirm compliance with established policies and practices. Primary accountability for enterprise risk management resides with our CEO, who further delegates responsibilities throughout the Company under a framework of management authorities and responsibilities. Key components of that framework include the following:

First Line of Defence

Business management provide day-to-day risk management and control:
- Responsibility to identify, take, assess, manage, and mitigate risk on a daily basis, adhering to our approved risk appetite statements, and supporting policies and practices
- Monitor and report on risks and compliance with risk mitigation activities
- Comply with internal and external policies and regulations

Second Line of Defence

Enterprise risk management and compliance functions provide risk policies, tools, methodologies, and oversight:
- Develop and support the risk management framework to identify, measure, assess, report, monitor, and respond to risk
- Perform independent review, challenge and monitoring of risk-taking and risk management activities
- Through the ORSA, assesses level of capital required to support future solvency
- Communicates internal and external compliance requirements and provide support to help ensure compliance
- Management Risk Committee, along with other executive management committees, oversee the management of major existing and emerging enterprise risks and control activities, monitoring whether the magnitude of those risk remains within our approved risk appetite

Third Line of Defence

Internal audit provides periodic independent assurance:
- Provide assurance on the adequacy and effectiveness of first line internal controls, as well as enterprise risk management framework, and related processes and practices
- Review compliance with policies, standards, and required practices using a risk-based approach

Management of Key Risks

The key risks we manage include insurance, financial, operational, and strategic risks, which are explained in greater detail below. Although we have described those risks that we believe to be material, other risks and uncertainties exist. If any of these risks or any other risks or uncertainties actually occur, it is possible that our business could be materially affected in an adverse manner. Our enterprise risk management framework cannot and is not designed to anticipate every risk in all environments, nor the timing or effect of every such risk.

Enterprise Risk Management Framework

<table>
<tr><td rowspan="4">Enterprise Risk Management</td><td colspan="3">Strategic Risk</td></tr>
<tr><td colspan="3">Strategy adequacy risk / Strategic execution risk / Climate change risk / Business, economic, political, and social environment risks / Competition risk / Acquisition risk / Distribution risk / Capital management risk / Reputational risk / Pandemic risk</td></tr>
<tr><td>Insurance Risk</td><td>Financial Risk</td><td>Operational Risk</td></tr>
<tr><td>Underwriting risk
Reserve estimate risk
Catastrophe risk</td><td>Interest rate risk
Equity / stock price risk
Credit risk
Foreign exchange risk
Liquidity risk</td><td>People risk
Conduct risk
Fraud risk
Information security risk
Information technology risk
Cyber security risk
Implementation of IFRS 17 and IFRS 9 risk
Regulatory and legal risks
Business interruption risk</td></tr>
<tr><td colspan="4">Risk Culture</td></tr>
</table>

Insurance Risk

Underwriting Risk

Underwriting and Pricing

Underwriting risk is the risk of adverse financial exposures arising from various activities integral to the underwriting of insurance products, including product design, pricing, risk acceptance, and claims settlement. Our exposure to concentrations of insured risks is mitigated by the use of segmentation, policy issuance and risk acceptance rules, individual limits, and reinsurance.

In particular, a financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. We price our products by taking into account numerous factors including product design and features, claim frequency and severity trends, inflationary cost pressures including social inflation, product line expenses, special risk factors, capital requirements, regulatory requirements, competitive forces, and expected investment returns. These factors are reviewed and adjusted on an ongoing basis with a view to confirming that they are reflective of current trends and market conditions. We endeavour to maintain pricing levels that produce an acceptable return by appropriately measuring and incorporating these factors into our pricing decisions. New products and material product changes are subject to a detailed review by management, including our actuarial specialists, prior to their launch in order to mitigate the risk that they are priced at an inadequate level. Pricing segmentation and risk selection are used together with a view to attracting and retaining risks at acceptable return rates. The process of pricing involves the use of models, which exposes us to the risk that actual results differ from those modelled (model risk), due to model limitations, data issues, human error, or other factors.

The performance and pricing of all of our products are regularly monitored, and corrective action is taken as considered necessary, including modification of product pricing, terms, conditions, or eligibility requirements, modification of the level of capacity provided, the use of reinsurance or risk sharing pools, as applicable, and eliminating the offering of some products or product features. The lead-time for implementing pricing or product modifications may be extended due to the time required for internal and/or regulatory approval processes, updating our underwriting systems, and educating brokers and/or customers on the modifications. The modifications would then be applied prospectively to new and renewing policies.

To manage the risk arising from underwriting, we have policies that set out our underwriting risk appetite and criteria, as well as specified tolerances for maximum risk retention and management processes to monitor compliance with these limits. We utilize reinsurance and industry risk sharing pools, where available, in order to manage our exposure to insured risks.

Claims Settlement

To control our exposure to unpredictable future developments that could negatively impact claims settlement, we promptly respond to new claims and actively manage existing claims, thereby shortening the claims cycle. In addition, our regular detailed review of claims handling procedures, active litigation management, and proactive identification and investigation of possible fraudulent claims seeks to ensure our claims risk exposure, at a portfolio level, does not exceed the claim cost expectations inherent in the pricing of our products.

Legal and Regulatory Implications

In the normal course of our business, we are, from time to time, subject to a variety of legal and regulatory actions relating to our business operations. The P&C insurance industry is subject to significant government regulation. As a result, it is possible that future legislative or regulatory changes or changes in interpretations may limit the Company's ability to adjust prices, adjudicate claims, or take other actions that would impact operating results. The Company seeks to mitigate this risk through regular discussions with regulators and P&C insurance industry groups to ensure the Company is aware of proposed changes and by providing feedback to legislators and regulators on proposed changes.

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative and regulatory activity may increase our exposure to these types of legal claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. To mitigate our exposure to these types of legal claims, we intend to respond to new insurance and legal claims promptly and actively manage existing insurance and legal claims. When necessary, claims reserves are adjusted to reflect potential legal defence costs and potential settlements. See "Regulatory and Legal Risks" below for additional details.

Quality Review Procedures

Quality review procedures seek to ensure that our underwriting and claim activities fall within established guidelines, expected practices, and pricing structures. Centralized and field-level reviews are conducted on a test basis. The results of these quality reviews are shared with the appropriate management and staff with the intention that any issues identified can be promptly addressed.

Reinsurance

We use reinsurance to manage our exposure to insurance risks. Reinsurance coverage risk arises because reinsurance terms, conditions, availability, and pricing may change on renewal, particularly following domestic, foreign, or global catastrophe events, or as a result of higher-than-expected claims frequency and/or severity on non-catastrophe reinsurance treaties. In addition, reinsurers may seek to impose terms that are inconsistent with corresponding terms in the policies written by us, which may reduce the eligible claims costs that can be ceded to the reinsurers. Ceding risk to reinsurers does not relieve us of the obligation to our policyholders for claims; therefore, we manage the level of credit risk associated with our reinsurers and our recoverable balances. Management reviews our reinsurance program with the intention of ensuring its cost effectiveness and the adequacy of coverage obtained, which reflects our risk tolerances, underwriting practices, and financial strength, while at the same time complying with our reinsurance and capital risk management policies.

Reserve Estimate Risk

Reserve estimate risk is the risk that our claim liability estimates are insufficient to cover future insurance claim payments. We establish claim liabilities to cover the estimated liability for payment of all claims and claims adjustment expenses incurred with respect to insurance contracts underwritten by us. Claim liabilities do not represent an exact measurement of the liability. Rather, they are our best estimate of the expected ultimate future cost of resolution and administration of claims. To address inflation risk, expected inflation is taken into account when estimating claim liabilities. The process of estimating claim liabilities involves the use of models, which exposes us to model risk in the event that actual results differ from those modelled, due to model limitations, data issues, human error, or other factors.

Claim liabilities include an estimate for reported claims, as established by our claims' adjusters based on the details of reported claims, plus a provision for IBNR, as established by our corporate actuaries.

Through a series of algorithms, real time analytics, and integration of third-party services, each claim submission is assessed for validity, and costing (including salvage, subrogation, reserving, etc.). After the triage stage is complete, we leverage artificial intelligence (AI) tools to assign the claim to an appropriate claims adjuster. Individual claims estimates are determined by claims adjusters on a case-by-case basis in accordance with documented policies and procedures. These specialists apply their experience, knowledge, and expertise, after taking into account available information regarding the circumstances of the claim to set individual case reserve estimates. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Uncertainty also exists regarding the number and size of claims not yet reported as well as the timing of when the claims will be reported. Accordingly, the IBNR provision is intended to cover future additional costs, including inflation, emerging on both reported claims and claims that have occurred but have not yet been reported.

The valuation of claim liabilities is based on estimates derived by region and line of business using generally accepted actuarial techniques. Numerous individual assumptions that impact average claim costs or frequency of late reported claims are made for each line of business. The main assumption in the majority of actuarial techniques employed is that future claims development will follow a pattern similar to recent historical experience. However, there are times where historical experience is deemed inappropriate for evaluating future development because there is insufficient credible data, or because changes in claims handling practices, climate patterns, inflationary cost pressures including social inflation, recent judicial decisions, legislation or major shifts in a book of business indicate a departure from historical trends. Such instances can require significant actuarial judgment, often supported by industry benchmarks and studies, in establishing an adequate provision for claim liabilities.

Establishing an adequate provision for claim liabilities is an inherently uncertain process and is closely monitored by our corporate actuarial department. Claim liabilities, including the provision for IBNR as established by our corporate actuaries, are subject to an internal and external peer review process to assess the adequacy of the provision for claim liabilities and compliance with professional standards.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of our bond investments that support the claim liabilities. In assessing the risks associated with investment income and therefore the discount rate, we consider the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

The following table presents the interest rate sensitivity analysis for a one percentage point change in interest rates on the net claim liabilities:

	As at December 31,			
(in millions of dollars)	**2022**		**2021**	
Impact on:	+1%	-1%	+1%	-1%
Net claim liabilities	$ (67.9)	$ 72.3	$ (82.8)	$ 88.6

Catastrophe Risk

Catastrophe risk may arise if we experience a considerable number of claims arising from man-made or natural catastrophes that result in significant impacts on claims costs. Catastrophes can cause losses in a variety of different lines of business and may have continuing effects which, by their nature, could impede efforts to accurately assess the full extent of the damage they cause on a timely basis. Although we evaluate catastrophe events and assess the probability of occurrence and magnitude of impact through various commonly used, industry accepted modelling techniques and through the aggregation of limits exposed in each region in which we operate, such events are inherently unpredictable and difficult to quantify. In addition, the incidence and severity of catastrophe events may become increasingly unpredictable as climate patterns change. Severe weather caused by climate change is expected to continue to affect the P&C insurance industry and result in higher claims costs.

We manage our catastrophe events exposure by monitoring exposure to concentrations of insured risks, by considering the potential impact on capital position and overall risk tolerances, through the deductibles charged to policyholders, by limitations on policy terms, by limiting underwriting capacity for particular risks or regions, and by purchasing reinsurance.

Financial Risk

Our financial instruments, including investments, are exposed to interest rate risk (including the impact of credit spreads), equity market price risk and preferred stock price risk, credit risk, foreign exchange risk, and liquidity risk.

We have established a detailed investment policy for the investment portfolio, which is subject to regular review and approval by the Board. The policy sets out our philosophy of investment management, which is to generate sufficient income, in support of financial targets, while preserving capital. The philosophy focuses on maximizing our long-term capital strength and risk-adjusted returns. The policy includes specific guidelines for such items as asset mix, concentration levels in specific investments or industries, required quality of the underlying investments, the use of derivatives, and exposure to foreign currencies. Compliance with these guidelines, and the relevant requirements of the *Insurance Companies Act* (Canada), is routinely monitored by management and the Executive Investment Committee that actively oversees investment strategy and performance.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of assets and liabilities as they either mature or are contractually repriced. Changes in interest rates can occur from both changes in the Government of Canada yield curve and changes in relevant market credit spreads. Typically, interest income will be reduced during sustained periods of declining interest rates, but this will also generally increase the fair value of the bond portfolio. The opposite is true during a sustained period of increasing interest rates.

Interest rate risk is a significant risk to us due to the nature of our investments and claim liabilities. Accordingly, a portion of our bond portfolio has been voluntarily designated as FVTPL financial assets which, together with a portion of AFS bonds, is managed to offset the effect that interest rate changes have on our claim liabilities.

The impact of an immediate hypothetical one percentage point change in interest rates (assuming a parallel shift across the yield curve), on the FVTPL and AFS bond portfolios, with all other variables held constant is as follows:

	As at December 31,							
(in millions of dollars)	**2022**				**2021**			
Impact on:		+1%		-1%		+1%		- 1%
Fair value of FVTPL bonds and income before income taxes	$	(64.8)	$	71.5	$	(87.1)	$	96.8
Fair value of AFS bonds and OCI before income taxes	$	(78.9)	$	90.0	$	(72.5)	$	82.5

As discussed above under "Insurance Risk - Reserve estimate risk", as at December 31, 2022, an immediate hypothetical one percentage point increase in the discount rate would have reduced net claim liabilities, and increased income before income taxes, by $67.9 million (2021: $82.8 million). This would have partially offset a corresponding decrease in income before income taxes on the FVTPL bond portfolio discussed above as at December 31, 2022 of $64.8 million (2021: $87.1 million).

Common Equity Market Price Risk and Preferred Stock Price Risk

A portion of our investment portfolio is held in Canadian and foreign equities. General economic conditions, stock market conditions, investor sentiment, and many other factors can positively or adversely impact the equity markets and, consequently, the value of equity investments we hold. Our AFS portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the S&P/Toronto Stock Exchange 60 Index, and foreign stocks and pooled funds with fair values that are benchmarked against movements in the MSCI World Index. Also included in the AFS portfolio are our holdings of preferred stocks. Economic trends, interest rates, credit conditions, regulatory changes, and other factors can positively or adversely impact the value of preferred stocks that we hold. The fair value sensitivity of our preferred stocks is assessed against movements in the Solactive Canadian Rate Reset Preferred Share Index.

The estimated impact of a 10% movement in the aforementioned indices to the value of our equity portfolio, with all other variables held constant, to the extent we do not dispose of any of these equities during the year, is as follows:

	As at December 31,							
(in millions of dollars)	**2022**				**2021**			
Impact on:		10%		-10%		10%		-10%
Fair value of Canadian stocks and OCI before income taxes	$	38.3	$	(38.3)	$	40.5	$	(40.5)
Fair value of foreign stocks, pooled funds and OCI before income taxes	$	19.7	$	(19.7)	$	20.8	$	(20.8)
Fair value of preferred stocks and OCI before income taxes	$	32.1	$	(32.1)	$	51.8	$	(51.8)

Credit Risk

Credit risk is the risk of financial loss caused by our counterparties not being able to meet payment obligations as they become due. Our credit risk arises primarily in the bond, preferred stock and commercial loan portfolios, the securities lending program, premiums receivable, amounts owing from reinsurers, and structured settlements. Unless otherwise stated, our credit exposure is limited to the carrying amount of these assets. Our principal approach to mitigate credit risk is to maintain high credit quality standards and to diversify credit exposures by limiting single name concentrations. Concentration risk also exists where multiple counterparties may be financially affected by changing economic conditions in a similar manner. We have a concentration of investments in Canada and within the financial sector. These risk concentrations are regularly monitored and adjusted as deemed necessary.

Bonds and Preferred Stocks

We manage our credit risk associated with bonds and preferred stocks by investing in bonds and preferred stocks that are primarily of high credit quality, and limit exposure with respect to any one issuer. On a regular basis, we also monitor publicly available information referencing the investments held in the investment portfolio to determine whether there are investments which require closer monitoring of the credit risk. Refer to Section 5 — “Financial position” for further details pertaining to our investment mix and investment portfolio credit ratings.

Securities Lending

We manage credit risk associated with our securities lending program by obtaining indemnification against security borrower counterparty default from a major financial institution and by obtaining collateral with a fair value in excess of the value of the securities loaned under the program. Refer to Section 7 — “Liquidity and capital resources” for further discussion.

Premiums Receivable

Our credit exposure to any one individual policyholder or broker included in premiums receivable is not significant. We regularly monitor amounts due from policyholders and follow up on all overdue accounts. As permitted by legislation, when premiums are overdue for an extended period of time, we cancel the insurance coverage under the applicable policy. Before a broker is granted a contract, we conduct due diligence reviews. Delinquent accounts are regularly monitored, and we take action against non-payment.

Commercial Loans

We periodically issue commercial loans to brokers. Collateral, principally in the form of security over a borrowing brokerage’s operating assets, is held to protect us against loss in the event of a default of any of these loans. Annually, and where required more frequently, financial reviews are undertaken to determine if the broker is expected to be able to make the payments required by the loan as and when due. Our gross credit exposure on these commercial loans is limited to their carrying value, which amounted to $12.0 million as at December 31, 2022 (2021: $24.3 million). Management does not consider any of these current commercial loans to be impaired as at December 31, 2022.

Reinsurance Receivable and Recoverable

Credit exposures on our reinsurance receivable and recoverable balances exist to the extent that any reinsurer may not be willing or able to reimburse us under the terms of the relevant reinsurance arrangements. We have policies which limit the exposure to individual reinsurers and a regular review process to assess the creditworthiness of reinsurers from whom we purchase coverage and the recoverability of reinsurance receivable balances. Our reinsurance risk management policy generally precludes the use of reinsurers with credit ratings less than “A-”. As at December 31, 2022, 97.7% (2021: 97.5%) of our reinsurers have a credit rating of “A-” or better as determined by independent rating agencies. Where appropriate, we obtain collateral for outstanding balances in the form of cash, letters of credit, offsetting balances payable, guarantees, or assets held under reinsurance security agreements. The Company has recorded an allowance for losses on reinsurance receivable and recoverable of $0.5 million (2021: $0.5 million).

Structured Settlements

We have purchased annuities from life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, we are exposed to credit risk to the extent to which any of the life insurers fail to fulfil their obligations. This risk is managed by acquiring annuities from multiple life insurers with proven financial stability, all of which are rated “A-” or better by independent rating agencies. As at December 31, 2022, no information has come to our attention that would suggest any weakness or failure in life insurers from which we have purchased annuities. Consequently, no provision for credit risk was recorded in 2022 (2021: nil). The original purchase price of the outstanding annuities was $256.9 million (2021: $321.1 million).

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of an asset or liability will fluctuate due to changes in foreign exchange rates relative to the Canadian dollar. Our foreign exchange risk relates primarily to our foreign common stock and pooled fund holdings in the AFS portfolio, which are denominated in various foreign currencies.

Our largest foreign currency exposure is to the US dollar. The impact on the fair value of US dollar foreign stocks, pooled funds, and OCI before income taxes from a 10% change in the US dollar relative to the Canadian dollar is $12.5 million (2021: $14.2 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and OCI before income taxes is $2.4 million (2021: $2.8 million), assuming historical correlations between currency pairs remain intact.

Liquidity Risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations, particularly those related to claim payments. Currently, the liquidity requirements of our business are met primarily by funds generated from operations, asset maturities, and investment returns. Liquidity risk arises in relation to each of those funding sources. To mitigate this risk, and to satisfy our operational requirements, we have invested a portion of our assets in short-term (less than one year) highly-liquid money market securities, and we have access to a revolving credit facility, subject to compliance with covenants. A large portion of invested assets are held in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements. Refer to Note 8 — "Financial risk management" included in our audited consolidated financial statements, for a summary of the Company's financial assets and financial liabilities maturity profile.

Operational Risk

Operational risk is the risk of financial loss due to inadequate or failed processes, people or systems, or due to external events. This may relate to any of our activities and includes, for example, faulty processes, prohibited employee actions, deceptive actions by third parties, human error, and technology failures. We manage operational risk through our three line of defence risk governance model (refer to "Corporate Governance and Accountability" above for more detail), and are continually enhancing our enterprise risk management framework to include current risk assessments for our strategic initiatives and significant business and functional areas. There is also ongoing monitoring and follow-up on operational risks, incidents, and associated controls through regular reporting to senior management, the Management Risk Committee, the Risk Review Committee, and other relevant Board of Directors committees.

People Risk

Successful implementation of our strategy depends, among other matters, on our ability to attract, develop, motivate, and retain employees with the necessary skills, capabilities, and knowledge (refer to "Strategic Risk – Strategic Execution Risk" below for more detail). The inability to attract, motivate, or retain an appropriate staffing level and/or key employees with specialized skills, capabilities, or knowledge could adversely impact our ability to execute on strategic initiatives, our financial performance, our compliance with applicable legal requirements, or result in an increased risk of operational errors. To mitigate this risk, we focus on the delivery of critical talent management and performance enhancement programs seeking to ensure we identify, attract, develop, motivate, and retain an adequate number of employees with the appropriate skill set. We also review the composition, experience, and skills of our senior management and the Board to confirm the necessary competencies are represented at the leadership level and that we have adequate succession plans in place.

Additionally, a competitive hiring market along with inflationary-pressures may increase compensation and benefits offered to attract and retain candidates and employees, which may in turn increase our operating expenses and expense ratio.

Conduct Risk

Conduct risk is defined as business practices, or actions by external parties, our employees or directors, that create risks of outcomes that would harm stakeholders or create reputational risk to the Company. We manage conduct risk by implementing our Code of Business Conduct, a Supplier Code of Conduct, Conduct Risk Management Framework, governance practices, enterprise risk management programs, and employee and broker training. All of our directors, officers, employees, and suppliers have a responsibility to conduct their activities in accordance with our Codes of Conduct.

Under our ethics reporting program, employees or other stakeholders are able to contact a whistleblower hotline operated by an independent service provider on a confidential and anonymous basis to communicate any concerns regarding compliance with our Code of Business Conduct, including questionable accounting or auditing matters, internal controls over financial reporting, and our disclosure controls and procedures. All concerns raised are forwarded to designated individuals for investigation and follow-up. Complaint handling and ombudsperson mechanisms also represent a conduit for identifying and escalating conduct issues.

Fraud Risk

As a P&C insurer, we may be subject to internal or external fraud. Potential exposures include: claimants may exaggerate claims for personal gain; our insureds or brokers may submit inaccurate underwriting information in an attempt to reduce premium costs or obtain insurance coverages which may otherwise be unavailable; service providers may exaggerate invoice values or charge for unnecessary or uncompleted work; employees may misappropriate assets or submit inadmissible expenses for reimbursement; or internal or external parties may impersonate employees, insureds, or vendors to misappropriate assets or gain access to systems. To mitigate the risk of fraud and abuse, we have implemented governance processes and internal controls to prevent and detect potential internal or external fraud. These internal controls include fraud detection processes within our underwriting and claims functions to detect potential fraud and flag cases for further investigation. We also engage with regulatory authorities on regulatory actions which could help to reduce fraud, including addressing fraud rings, and thereby to help maintain insurance affordability for consumers.

Information Security Risk

Information security risk is the risk of loss or harm resulting from the failure to appropriately manage information during its lifecycle. We routinely collect, process, use, retain, and dispose of various types of information from numerous sources, including personal information, policyholder information, and business or internal proprietary information. An inadvertent disclosure, unauthorized access, or other misuse of such information could have a negative impact on the privacy of our policyholders or other individuals, or on the confidentiality of our strategic plans, competitive initiatives, business information, or financial performance. The occurrence of such an event could result in reputational damage, financial loss, and/or legal or regulatory consequences to us. We mitigate this risk by employing physical and logical access restrictions. We attempt to limit access to data, information, and systems to the minimum required access levels and routinely review provisioned access. Through our cyber security program, we regularly enhance systems, networks, processes, and data protection measures to detect and reduce the risk of unauthorized access. We also provide employee information security awareness training. See "Cyber Security Risk" below for additional details.

Information Technology Risk

Our business depends on the successful and uninterrupted functioning of our computer and data processing systems and user or system interfaces. We rely on third-party service providers for delivering key components of these systems, including network or data center services, voice or data communications services, and a variety of Software as a Service (SaaS). The failure of these systems, including failure to timely detect system outages or defects, or failure of our third-party service providers to deliver these services on a timely basis, could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities or otherwise conduct business. A system failure could result in the loss of existing or potential business relationships, compromise our ability to process transactions in a timely manner, or otherwise impair our ability to develop, modify, or execute our strategies, and ultimately, could negatively affect our financial results and our reputation. To manage this risk, we have implemented

internal control and system monitoring processes. To identify, triage, and respond to critical technology incidents in a timely manner, we have incident response and business resiliency plans and processes in place, which are routinely maintained and tested. See "Business Interruption Risk" below for additional details. We also require our key third-party service providers to enter into service level agreements to contractually secure their commitment to our minimum expected levels of service. Our data centres are managed by reputable third-parties who provide disaster recovery services, including testing of, and redundant systems and facilities for, our critical services. Management regularly monitors the service levels provided by key third-party service providers, the stability of key systems, and the quantity and root cause of critical technology incidents.

To achieve operational and strategic objectives, we need to maintain and upgrade our computer and data processing systems and information technology infrastructure. Such projects can require substantial capital investment and coordination of significant internal and third-party resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. The implementation of significant new or revised systems or technology (e.g., cloud computing, robotic process automation, AI, and external data sources), changes to processes and the introduction of new third-party service providers have the potential to introduce additional complexity and operational risk until full transition is completed. To address increased operational risk during a transition period, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are applied. Significant technology projects are managed and governed as strategic initiatives (refer to "Strategic execution risk" below for more detail).

Cyber Security Risk

Cyber security risk is the risk of unauthorized information access, or the loss of system integrity or availability, as a result of an attack delivered electronically or by direct access to our systems or systems provided by our third-party service providers. There is an increasing prevalence and sophistication of cyber-attacks affecting a variety of businesses with increasing financial, operational, and reputational impact. We have a cyber security program which includes employee cyber security awareness training, testing, and reminders to reduce the risk of employee action inadvertently resulting in an exposure. Through our cyber security program, we periodically benchmark our cyber security practices against industry leading practices to assess and prioritize areas for investment, and we regularly enhance systems, networks, processes, and data protection measures to detect and reduce the risk of unauthorized access, increase system resilience, and minimize the impact of a cyber-attack if it were to occur. To identify, triage, and respond to cyber incidents in a timely manner, we have specific cyber incident response plans and processes in place, which are routinely maintained and tested. We monitor external cyber-attacks and strive to continually learn from them to improve our defences and response plans. In addition, we also carry cyber incident insurance to mitigate exposure to significant losses arising from a cyber incident, subject to applicable policy limits.

Implementation of IFRS 17 and IFRS 9 Risk

Two new accounting standards come into effect on January 1, 2023: IFRS 17, which replaces IFRS 4 – *Insurance Contracts* ("IFRS 4"), and IFRS 9, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement, both of* which are discussed in Note 4 — "Standards issued but not yet effective" of our audited consolidated financial statements.

An IFRS 17 systems solution has been implemented in order to meet the requirements of IFRS 17. The Company has determined its accounting policy choices, implemented its new chart of accounts and is working on finalizing the January 1, 2022 opening balance sheet and the 2022 comparatives in the general ledger, utilizing its IFRS 17 systems solution. Readiness activities continue throughout the Company to develop new processes and controls to support IFRS 17 reporting, and to deliver tailored training and support to each affected area.

The implementation of new technology, tools, processes, and reporting have the potential to introduce additional complexity and operational risk until full transition is completed. To address increased operational risk during the transition period, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are applied.

The changes associated with IFRS may impact comparability of reporting between issuers while the industry works through the initial implementation period. Internal and external stakeholders may need time to adapt to the impact of IFRS 17 and IFRS 9 as new Key Performance Indicators and financial measures and ratios may be introduced within the industry. There may be increased volatility in financial results and regulatory capital position. Additionally, IFRS 17 may change how we, or our competitors, access and manage certain insurance products.

Regulatory and Legal Risks

Regulatory Risk

Regulatory risk refers to the risk that modifications to legislation, or how it is applied by regulators, including increasing volume, complexity or stringency, will threaten our ability and capacity to conduct profitable business in the future.

To maintain our public company listing on the TSX, we must comply with applicable requirements as prescribed by security regulators in Canada and by the TSX.

As a participant in the P&C insurance industry, we are subject to significant legislative oversight by federal and provincial governments and administrative bodies, which are in addition to legislation of general applicability such as privacy, health and safety, and employment standards. Insurance legislation delegates regulatory, supervisory, and administrative powers to federal, provincial, or other jurisdictional insurance regulatory authorities. Such legislation is generally designed to protect policyholders and is related to matters including: rate setting; restrictions on types of investments; the maintenance of adequate capital and liquidity; the examination of insurance companies by regulatory authorities, including periodic market conduct examinations; and the licensing of insurers and their agents and brokers. In particular, the personal automobile insurance product is subject to significant legislation in each province and it is possible that future legislative changes may prevent us from taking actions, such as raising rates, to affect operating results.

Our ability to successfully implement our strategy could be impacted by changes to capital and solvency standards, restrictions on certain types of investments, distributions, capital or liquidity management actions, and periodic market conduct, governance and financial examinations by regulators. We are required by federal regulators to maintain sufficient capital in order to protect our continued solvency and protect us and our policyholders from adverse events. The primary solvency test we must comply with is the MCT, whereby we are required to hold at least 150% available capital against required risk-weighted capital. In addition, under the ORSA framework (refer to “Own Risk and Solvency Assessment” above for more detail), we internally assess our risks and determine the level of capital required to adequately support future solvency. The internal capital targets established in our capital management policy are higher and more stringent than the regulatory minimum, and our current capital level is higher than our internal targets.

The application of existing laws or regulatory policy may require a degree of interpretation, particularly with respect to new or emerging issues, or new operations. In addition, changes to laws and regulations, including changes in their implementation, interpretation, or application, or the introduction of new laws and regulations, could affect us by: limiting the products or services we can provide; restricting the prices we are able to charge; impacting the manner in which we offer our products to the market; requiring specified claims payments or customer relief measures; limiting the effectiveness of our policy wordings; limiting our ability to detect and protect against fraudulent claims and/or fraud rings; increasing the ability of new or existing competitors to compete with us in relation to our products and services; and/or by limiting capital or liquidity management actions. The brokers on whom we rely to distribute our products are also subject to laws and regulations governing the conduct of their businesses, and the disclosure they provide to policyholders. We are unable to control the extent to which those brokers comply with applicable laws and regulations, and any failure by them to do so could result in the imposition of significant restrictions on their ability to do business with us, which could adversely affect our results of operations or financial position.

Legal and Regulatory Action Risk

Legal and regulatory action risk refers to the impact of court awards, settlements, penalties, fines, and restrictions or precedents on the manner in which we carry on business as a result of lawsuits or non-compliance with applicable laws or regulatory requirements.

In the normal course of our business, we may, from time to time, be subject to a variety of legal and regulatory actions relating to our operations. Current and future court decisions and legislative activity may increase our exposure to claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. In addition, plaintiffs may bring new types of legal claims against insurance and related companies, including claims by policyholders and/or others in relation to the demutualization and our IPO. We have implemented policies and practices to administer and address claims made by policyholders in respect of the demutualization and our IPO. As of December 31, 2022, we do not believe there is any material outstanding complaint or claim made by policyholders.

To manage legal and regulatory action risk, we have established procedures and controls supported by our Code of Business Conduct. Our regulatory compliance management program assesses whether we are currently in material compliance with applicable laws, rules, and regulations. There is also ongoing monitoring and follow-up on risks, incidents, and associated controls through regular reporting to the Management Risk Committee, the Risk Review Committee, and other relevant Board of Directors committees. We also actively participate in discussions with regulators and governments, and in industry groups so that significant concerns are communicated to these bodies. In addition, our Legal Risk Management Policy requires consultation with the legal department when transactions or activities, due to either size or nature, may pose significant legal or regulatory risk, or in the event of actual or threatened litigation or regulatory or law enforcement activity.

Business Interruption Risk

Business interruption risk is associated with events that impact, or have the potential to impact, our ability to conduct business as normal. Interruptions to business can be triggered by events affecting our facilities, technology, people, or third-party suppliers, including events such as floods, earthquakes, technology failures and pandemics. Such events can result in losses of financial assets, property and equipment, key employees, and/or the ability to process transactions and underwrite business in a timely manner.

To mitigate business interruption risk, we have established a specialized Enterprise Business Continuity Management ("EBCM") function headed by the Chief Risk and Actuarial Officer. The EBCM function proactively assesses potential risks to the Company and works to ensure that resilient planning and continuity arrangements are in place. Resiliency plans are developed and tested with a view to ensuring critical functions can continue despite a disruptive event. For example, resiliency plans exist to support emergency response, incident management, crisis management, crisis communication, disaster recovery, facilities recovery, regional incident response, business continuity, and a pandemic. We have deployed a response structure that provides rapid response to events and have created teams at all levels to allow quick and effective decisions to be made at an appropriate level and to be executed efficiently. We also conduct exercises to test the effectiveness of our resiliency plans. In addition, we also carry business interruption insurance to mitigate exposure to significant losses arising from business interruption events, subject to applicable policy terms and limits; however, such insurance may not adequately compensate us for material losses that may occur due to such events.

Strategic Risk

Strategic risk is the potential for loss or under-performance arising from failing to have appropriate business strategies, the ineffective implementation of those strategies and/or the inability to adapt strategies to changes in the business environment. Our strategy, and our ability to develop and implement the strategy, is influenced by customer and broker preferences, industry competition, changes in the regulatory environment or requirements, legal matters, general economic conditions, the social environment, capital levels, and access to necessary expertise.

Strategy Adequacy Risk

Each year the executive leadership team reassesses the adequacy of our strategy in light of customer and broker preferences, industry competition, and general economic, social, regulatory, technological, capital, and other conditions or risks, and develops a detailed business plan which reflects this strategy. The business plan and strategic risk analysis are presented for review and approval annually, or more frequently if required, by the Board. Our executive leadership team regularly reassesses our corporate priorities based on evolving conditions. The Board also provides oversight and constructive challenge to the adequacy of our strategy on a regular basis.

Strategic Execution Risk

Strategic execution risk is the risk that we are ineffective in implementing our business strategies. We closely monitor the environment in which we operate, and risks that may impact the execution of our strategy are regularly assessed, managed, and addressed by the executive leadership team, with oversight from the Board.

From time to time we may undertake strategic initiatives to implement our business strategies. Such initiatives require the investment and coordination of internal and third-party resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. Changes to a strategic initiative's scope, costs, or timing may impact the magnitude or timing of benefits to be achieved from the initiative or the investment required to implement the initiative, and may negatively impact other initiatives and financial performance. To address strategic execution risk, we dedicate resources to execute and manage these strategic initiatives. Where a strategic initiative requires specialized skills or additional personnel not available among our employees, we may engage third-party service providers to support strategic initiatives. We exercise careful oversight of third-party service providers with a view to ensuring that deliverables comply with contractual terms and expected timeliness, quality, and cost criteria, and to approve changes to scope, costs, or timing. We manage risks associated with strategic initiatives through specified management committees prioritizing and overseeing specific strategic initiatives. Our executive leadership team regularly assesses strategic initiative progress, as well as the adequacy of enterprise capabilities and capacity. The Board also provides oversight to strategic initiatives directly and through its committees.

Climate Change Risk

The impact of changing weather patterns arising from climate change poses significant risks for P&C insurers, including Definity Insurance. Climate change has implications for all aspects of our business: underwriting, claims, investments, and our own operations. Climate change risks are identified in the top risks for the organization monitored by the Board's Risk Review Committee. Climate change risks are interdependent and interact with many of the other risks we face, which adds further uncertainty, and complexity and have the ability to exacerbate existing risks. Climate change risks are categorized as follows:

- *Physical risk*: relates to both acute impacts of increasing frequency and severity of extreme weather events, as well as chronic changes in climatic effects contributing to more quickly degrading and/or overwhelming infrastructure.
- *Transition risk*: relates to changes associated with transitioning to a low-carbon economy, including regulatory and market risks, as well as reputational risks from stakeholders' views of our approach to climate change.

Increasing frequency and severity of extreme weather events have resulted in increased catastrophe events and claims. We respond to claims caused by weather-related events through our catastrophe response teams, our reinsurance program, and our claims vendors, who are vetted with a view to whether they can offer quality service even when responding to the demands of catastrophe events. See "Insurance Risk — Catastrophe Risk" above for more detail.

We are continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, with a view to confirming pricing, coverage options, risk accumulations and claim liability estimates remain appropriate. We are also assessing other climate change hazards or reputational risks present in our insurance offerings. See "Insurance Risk — Underwriting Risk" above for more detail.

Physical and transition considerations may also influence pricing, coverage options, product features, or services sought by customers or offered by our competitors. If we are unable to maintain competitive pricing, coverage options, product features, or services that are attractive to customers, our ability to grow or maintain our written premium levels and underwriting profitability may be impacted. See "Competition Risk" below for more detail.

Climate change risks may also influence the cost, coverage and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. These risks could impair the ability or desire of our reinsurers to provide us with reinsurance protection and could adversely impact our ability to obtain adequate reinsurance coverage on acceptable terms or at all. We have developed relationships with our reinsurers and have worked with them to help them understand the risk profile present in our book of business in relation to climate change risk. These relationships, along with proactive management of our reinsurance program, help us to maintain our access to sufficient and cost-effective reinsurance. See "Insurance Risk — Underwriting Risk — Reinsurance" above for more detail.

Investment values and returns may also be impacted by climate change risks. Weather-related losses or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely impact the value of our investments. We seek to manage these risks by maintaining a highly-liquid investment portfolio which is diversified across industries and regions. We have adopted targets to reduce the financed emissions intensity of our equity and corporate bond portfolio as a means of managing climate-related risk to our investments. See "Financial Risk" above for more detail.

Government policy can both impact climate change and be impacted by climate change. Introduction of carbon pricing or emissions caps could have adverse implications on claims and operational costs. Concerns about costs and availability of insurance for particular coverages, regions, or industries, may result in new legislation which could impact the viability of our existing products or services. Mandated climate change disclosures could result in increases in our compliance costs. To monitor and respond to government policy development, we engage with regulators directly and through participation in industry associations. See "Operational Risk — Regulatory and Legal Risks" above for more detail.

Expectations are rapidly evolving for all companies to respond meaningfully to the expected impact of climate change, to not only manage climate change risks but also to contribute to mitigating climate change. How shareholders and others assess our climate change strategy, or that of our industry, could have reputational and business implications, and how investors assess our climate change strategy could impact the market value of our shares. See "Reputational Risk" below for additional details. Through our governance processes and enterprise risk management framework, climate change risks are identified as being among the top risks for the organization and are monitored by the Board's Risk Review Committee. The Chief Risk and Actuarial Officer, supported by other members of senior management, has been assigned responsibility for our climate change strategy. We recognize that climate change could pose significant strategic implications for existing and potential future business operations. As a result, our climate change strategy is integrated into our business strategy across the organization. We analyze the implications of climate change on our underwriting and investment portfolios. We educate customers and employees on how to mitigate weather-related losses. We are making investments in improving the efficiency of operations and reducing the use of paper and energy. We have implemented relevant metrics and targets to support our climate change strategy.

Business, Economic, Political, and Social Environment Risk

Our business and profitability can be affected significantly by changes in the business, economic, social, and political environment. To mitigate this risk, we assess the likelihood and impact of such scenarios and associated mitigations as we prepare our business, capital, and strategic plans.

Global geopolitical events may impact the Canadian economy and exacerbate other risks we face. Depressed economic conditions, such as recession or stagflation, may cause changes in the level of demand for insurance or reductions in policy coverages and correlate with increases in claims fraud. We may also face increased credit risk caused by our counterparties not being able to meet obligations as they become due.

Increased political and governmental involvement in the insurance industry may otherwise change the business and economic environment in which we operate. Such changes could cause us to make unplanned modifications to our products or services or revise our strategy, or result in other industry participants altering their strategies in a manner that changes the level of competition in our target markets.

Definity recognizes the role businesses are increasingly expected to play in addressing social issues, including supporting equity-deserving groups. Our President and CEO is our executive sponsor for inclusion, diversity, equity, and accessibility and our ESG (Environmental, Social, and Governance) Steering Committee provides oversight and direction to our ESG strategies. In addition to climate change targets, Definity has established diversity targets to advance the representation of equity-deserving groups in leadership roles at Definity. To demonstrate our commitment to climate change and diversity targets, Definity has implemented a sustainability-linked loan structure that links its borrowing costs directly to the Company's performance on the following sustainability objectives:

- reducing Scope 1 and Scope 2 operational greenhouse gas emissions
- increasing the percentage of women in leadership positions

As a result of this structure, we could be subject to increased borrowing costs if we do not achieve our targets.

Additional details on our ESG strategies can be found in Definity's "Environmental, Social, and Governance (ESG) Report". How shareholders and other stakeholders assess our ESG strategies, or that of our industry, could have reputational and business implications, and how investors assess our ESG strategies could impact the market value of our shares. See "Reputational Risk" below for additional details.

Competition Risk

P&C insurance industry consolidation at the insurer and broker level, and the acquisition of brokers by other P&C insurance companies, may have significant implications for P&C industry fundamentals. Our ability to effectively compete may be impaired if we do not respond adequately. Industry consolidation reduces available acquisition targets and contributes to higher transaction multiples. However, it may also offer opportunities to acquire operations or books of business that do not align with a post-acquisition entity. Broker consolidation influences our distribution risk as discussed below. Competitor consolidation may result in increased influence on the underwriting environment and pricing as competitors realize efficiencies of scale.

Historically, the financial performance of the P&C insurance industry in Canada has tended to fluctuate in cyclical patterns of "soft" markets characterized generally by increased competition resulting in lower premium rates, followed by "hard" markets characterized by reduced competition and increasing premium rates. The risk exists that these fluctuations in industry conditions could produce an underwriting environment that negatively impacts our underwriting results, premium levels, and financial position.

When there is intense competition in the P&C insurance industry for any product line, our competitors may price their products at rates that appear to be below the level required to make a reasonable return in an effort to gain or retain market share. If we are unable to realize superior risk selection or sufficient expense efficiencies, our ability to establish or maintain competitive pricing could be adversely affected. Given our disciplined approach to underwriting, there may be market conditions or competitive actions which restrict our ability to grow or maintain our written premium levels.

The entrance of new market participants or a shift in the methods to distribute, select or price risks by competitors could also undermine our ability to establish or maintain competitive pricing or policy terms. The introduction of disruptive innovations and changing technologies could affect our addressable market, the way that our customers purchase insurance, how we price insurance, the demand for our products, and our underwriting and other decision-making processes. Our ability to effectively compete may be impaired if we do not respond adequately to new market participants or existing competitors who deploy such technologies. We actively monitor industry activities and performance both domestically and internationally, considering the implications for our current and future business and strategic plans.

Acquisition Risk

Our business strategy includes selective consideration of acquisitions or investments, some of which may be material. As noted above, continued consolidation in the P&C insurance industry may reduce the number of attractive acquisition targets and could contribute to higher transaction multiples. There can be no assurance that we will successfully identify suitable candidates in the future for strategic transactions at prices or terms and conditions that we deem acceptable. We may fail to close any desired acquisition if we cannot obtain necessary regulatory or shareholder approvals, or access sufficient capital resources to finance the acquisition. See “*Capital Management Risk”* below for additional details.

Identifying, negotiating, completing, managing, and integrating acquisitions involve a number of additional risks, including diversion of management’s attention from operating our business, failure to retain key personnel of acquired companies, unknown or undisclosed legal risks and liabilities relating to the acquisition or the acquired entity’s historic operations, or failure to integrate the acquisition in a timely or effective manner. Consequently, any acquisition we complete may not result in the realization of anticipated or long-term benefits or synergies to us or may impact existing business operations. Any of these risks could have a material adverse effect on our business, results of operations, and financial condition.

Distribution Risk

In order to meet our overall strategy, we must manage our distribution risk. Distribution risk includes the inherent risk of dealing with independent brokers and new market entrants, as well as the risk that the broker distribution channel would not be viable in a specific market or for specific products.

We write products through a network of brokers across Canada. The ability of our broker network to be competitive against other distributors and distribution channels, our ability to maintain a strong relationship with the brokers, and our ability to maintain acceptable service levels and appropriate pricing are critical for staying competitive in the market. The competitive environment is further complicated by the consolidation of brokers, and the acquisition of brokers by other P&C insurance companies, which may have a direct impact on our market share and ability to grow profitably. Additionally, strong competition exists among insurers for brokers with a proven ability to develop and deliver a profitable book of business. Premium volume and profitability could be negatively affected if there is a material decrease in the number of brokers that choose to sell our insurance products.

To address distribution risk, we maintain close relationships with brokers through our business development staff, who provide training and guidance to enhance the brokers’ understanding and marketing of our products, and we invest on an ongoing basis in maintaining a strong value proposition for our brokers. We periodically issue commercial loans to, or make equity investments in, certain brokers to, among other things, maintain broker loyalty.

Brokers face many of the same operational and strategic risks as P&C insurance companies. Like P&C insurance companies, brokers are subject to competition for business from other brokers or agents, and the direct distribution channel. Brokers must also maintain strong relationships with multiple P&C insurance companies to place customer insurance contracts and achieve favourable commission rates. In addition to base commission, brokers may be eligible for contingent profit commission (“CPC”) based on the performance of their portfolio of business with each P&C insurance company. By its nature, CPC is variable and subject to insurer terms which could change. These risks may impact the financial position and financial results of brokers, including those owned and consolidated by us. When issuing commercial loans to and making equity investments in brokers, we manage potential relationship issues and we mitigate potential financial risk exposure by conducting annual, or more frequent, financial reviews, and by obtaining what we believe to be appropriate terms for oversight and, in the case of commercial loans, collateral security.

In recognition of ongoing industry growth in the direct distribution channel, we continue to make significant investments in our multi-channel distribution strategy. While our broker business will continue to be a core part of our business model, our separately-branded digital direct channel offering represents a key pillar in our growth strategy allowing us to serve this distinct market segment. Given the relatively new nature of this distribution channel for us, there is risk that the maturation of the direct distribution channel may not yield the benefits expected on a timely basis or at all, or that it could result in negative reputational impact. We closely monitor the developments in and performance of both the direct distribution channel and the broker network.

Capital Management Risk

Capital management risk refers to the risk of not being able to fully execute on our business strategy as a result of insufficient, or ineffective use of, capital. We are required by federal regulators and our capital management policy to maintain sufficient capital, with a view to ensuring our continued solvency and protect us and our policyholders from adverse events (refer to “Regulatory Risk” above). A reduction in capital levels below our internal or regulatory targets could trigger corrective actions as specified in the capital management policy and subject us to regulatory intervention.

Financial strength ratings are an important competitive factor. Ratings organizations periodically review our financial performance and condition and provide a rating on our financial strength and credit rating. Ratings are subject to revision or withdrawal at any time by the assigning ratings organization. If a rating agency downgraded our financial strength rating below minimum acceptable levels, it could result in a loss of business, particularly in our commercial lines business, where certain customers may require that we maintain minimum ratings to enter into or renew business with us. In addition, a downgrade in a financial strength rating could increase our cost of capital and could result in the early termination of lock-up provisions under our governance agreement with HOOPP.

With a view to ensuring sufficient capital levels are maintained, we actively monitor the MCT ratio and the ORSA (refer to “Own Risk and Solvency Assessment” above), and the effect that external and internal forces and actions have on the capital base through our capital management practices. Senior management determines the potential impact on capital when establishing the annual business plan and setting strategy, and before entering into any significant acquisitions or investments, to confirm that acceptable levels of capital are expected to be maintained.

Currently, Definity is subject to the leverage restrictions under the *Insurance Companies Act* (Canada), which limit our ability to access debt compared to other P&C insurer holding companies not subject to such restrictions. While Definity is seeking to continue under the *Canada Business Corporations Act* which would remove the leverage restrictions, the completion and timing of the Continuance is uncertain as it is subject to government and regulatory approval. That said, as a publicly listed company, we may be able to raise additional capital in the equity market to meet capital needs.

Limitations on dividend and capital distribution from subsidiaries

Our payment of cash dividends will be subject to the discretion of the Board and will depend on a variety of factors and conditions existing from time to time that the Board may deem relevant, including our financial condition, general business conditions, and any restrictions regarding the payment of dividends to us by our subsidiaries.

As Definity is a holding company which conducts substantially all of our business through our subsidiaries and receives substantially all of our earnings from them, we will depend on the payment of dividends by our subsidiaries in order for us to pay dividends. Definity and each of the insurance subsidiaries must comply with applicable insurance legislation and regulatory capital requirements. The financial condition and results of operations of Definity and each of the insurance subsidiaries are included in our consolidated financial statements. Each insurance subsidiary must maintain reserves for losses and loss adjustment expenses to cover the risks it has underwritten, as well as comply with regulatory capital requirements. A severe loss incurred by one company, even if not material to us when our financial condition is viewed as a whole, could have an adverse effect on us because it could adversely affect how Definity or any of the insurance subsidiaries, as applicable, are considered by third parties, including rating agencies and insurance regulators.

The ability of our subsidiaries to pay dividends to us in the future will depend on their statutory surplus, on their earnings, and on legislative restrictions. The ability of our subsidiaries to pay dividends or make distributions or returns of capital to us may be limited by applicable corporate and insurance law or regulatory restrictions. While no regulatory approval is required for dividend payments from the regulated insurance subsidiaries, notice to OSFI is required together with pro forma capital calculations showing internal target capital levels are expected to be maintained both before and after such dividends are paid.

To the extent the ability of our subsidiaries to pay dividends or make distributions or returns of capital to us is materially limited, our ability to service our debt and pay dividends to our shareholders, if any, could be materially adversely impacted.

Reputational Risk

Reputational risk is the risk that publicity regarding the P&C insurance industry generally, our business practices, or actions by external parties, our employees or directors, whether true or not, will adversely affect our performance, liabilities, operations, broker relationships, customer base, or company market value.

Reputational risk assessments involve a broad array of factors, including the extent and outcome of relevant legal and regulatory matters, the economic intent of particular transactions, the impact of events on the Company, the need for customer or public disclosure, conflicts of interest, fairness issues, and public perception. We consider the potential reputational implications when implementing our business strategies and develop response plans to address anticipated responses where possible. We monitor public, broker, and customer sentiment through formal feedback, complaint handling and ombudsperson mechanisms, and monitoring of both social and traditional media. Based on monitoring results, we implement response plans as necessary. We also have incident management and communication plans in place to address incidents that may have reputational impact. Finally, we have conduct risk management programs in place to communicate expectations for conduct by our directors, officers, employees and suppliers, and to report and investigate potential conduct issues.

Pandemic Risk

The COVID-19 pandemic has resulted in significant disruption and uncertainty in the economic environment globally and across various industries, including insurance. Proactive capital and risk management practices, including business continuity arrangements developed in recent years, enabled us to react rapidly to the changing environment resulting from the COVID-19 pandemic. The uncertainty and volatility in the current business environment has heightened some of the risks inherent in our business. These include, but are not limited to: insurance risk including uncertainty regarding COVID-19 related claim exposures; legal and regulatory action risk due to possible changes to laws or regulations that may restrict prices we are able to charge, require forms of customer relief or increase the scope and amount of claim payments; reserve estimation risk due to uncertainty of changes in claim exposures, claimant behaviours, and claims reporting / settlement patterns; inflation and social inflation risks, and supply chain disruption impacting claims and operating expenses; financial risk to our investment portfolio arising from interest rate risk, and equity market and preferred stock price risk due to volatility in equity markets; and the impact of depressed economic conditions which could increase credit risk caused by our counterparties not being able to meet obligations as they become due, increase risk of claims fraud and the potential impact on the demand for insurance.

Our operational risk may also be impacted as we continue to modify where and how our employees work. During the COVID-19 pandemic, we enabled the vast majority of our employees to work remotely. We are now transitioning to a hybrid working model offering a mix of in-office and remote work. If employees do not adapt, or our competitors do not adopt a hybrid working model, we may have difficulty attracting and retaining staff. We may also find that employees are less productive as they adapt to the hybrid working model, which may impact our customer service levels. Working in a remote or hybrid mode also has implications on our information security, technology, and cyber security risks, as employees working remotely using their household or personal internet networks may increase our exposure to business incidents due to availability of internet services, or an increase in cyberattacks. These ways of working could impact the security of our technology platforms and the proprietary and other confidential data contained therein and could ultimately impact our business.

If any of these or any other risks or uncertainties occur, persist or worsen, it is possible that our business could be materially affected in an adverse manner.

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario action on behalf of a national class (businesses in Canada, excluding Québec) was certified as a class proceeding in 2021 and a trial is now underway. Definity Insurance and other insurer defendants consented to certification, which is a procedural step and not a determination of the merits. An action in Québec (limited to dentists and dental offices in Québec) was denied authorization as a class proceeding in 2021. The denial represents a rejection of that class proceeding. A second Québec action (all other businesses in Québec) remains outstanding. Definity Insurance denies liability and intends to vigorously defend its position in these proceedings. We individually assess each claim based on the loss details and available coverage and we have accepted and paid on COVID-19 claims where we determined there was coverage. The vast majority of Definity Insurance’s policies providing customers with business interruption coverage have business interruption wordings that, with some variation, require some sort of tangible physical harm to property. It is our position that COVID-19 on its own is not physical harm to property. While Definity Insurance intends to vigorously defend such litigation, it cannot predict with certainty the cost of defence and ultimate outcome of such litigation, including potential settlements, damage awards and/or cost consequences.

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12 — SUPPLEMENTARY FINANCIAL MEASURES AND NON-GAAP FINANCIAL MEASURES AND RATIOS

We measure and evaluate performance of our business using a number of financial measures. Among these measures are the “supplementary financial measures”, “non-GAAP financial measures”, and “non-GAAP ratios” (as such terms are defined under Canadian Securities Administrators’ National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure). These supplementary financial measures are calculated using amounts in, or components of line items in, our audited consolidated financial statements; however, they are not themselves disclosed in our consolidated financial statements. The non-GAAP financial measures in this MD&A are derived from one or more financial measures disclosed in our audited consolidated financial statements, and the non-GAAP ratios have at least one of those non-GAAP financial measures as a component, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

These supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios are used by financial analysts and others in the P&C insurance industry and facilitate management’s comparisons to our historical operating results in assessing our results and strategic and operational decision-making. These measures are outlined and defined below:

Supplementary Financial Measures:

Claims ratio	Net claims and adjustment expenses during a defined period expressed as a percentage of net earned premiums for the same period. This is a relevant metric to evaluate our level of claims activity relative to our net earned premiums in a given period.
Core accident year claims and adjustment expenses	Net claims and adjustment expenses less catastrophe losses and prior year claims development.
Catastrophe losses	An event causing gross losses in excess of $2 million, and generally greater than 100 claims, or a single claim with a gross loss in excess of $3 million. Catastrophe losses are presented net of reinsurance recoveries.
Book value per share	The Company’s equity attributable to common shareholders divided by the total common shares outstanding, net of shares held in trust, as at the balance sheet date.
Financial capacity	The sum of excess capital over 200% MCT and leverage capacity.
Leverage capacity	The amount of financial leverage that can be assumed, comprised of the Company’s current debt limit as an entity established under the ICA (2% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.
Certain other ratios	In our discussion of our financial results, we disclose certain ratios as a percentage of net earned premiums during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions, and premium taxes.

Non-GAAP Financial Measures:

Operating net income	Net income attributable to common shareholders less (or plus) non-operating gains (losses) net of applicable income taxes. Management uses operating net income to measure and evaluate the ongoing operational performance of the business. Management believes that operating net income is useful information for investors for such purpose. Although they may calculate these measures in a different manner, operating net income and similar measures are used by other insurers and analysts in the P&C insurance industry.
Operating income	Net income attributable to common shareholders less (or plus) income tax expense (recovery) and non-operating gains (losses). This financial measure is used to calculate operating net income.
Non-operating gains (losses)	Recognized gains (losses) on investments, impact of discounting, demutualization and IPO-related expenses and interest on funds held in trust, amortization of intangible assets recognized in business combinations, transaction costs in business combinations, restructuring costs, and other expenses or revenues that in the view of management are not part of our insurance operations. This financial measure is used to calculate operating net income.

Net income attributable to common shareholders is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating net income, operating income, and non-operating gains (losses). Below is a quantitative reconciliation of operating net income, operating income, and non-operating gains (losses) to net income attributable to common shareholders for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Net income attributable to common shareholders	$ 141.6	$ 33.7	$ 252.0	$ 213.2
Remove: income tax expense	(24.0)	(11.4)	(52.3)	(68.0)
Income before income taxes	**$ 165.6**	**$ 45.1**	**$ 304.3**	**$ 281.2**
Remove: non-operating gains (losses)				
Recognized (losses) gains on investments				
Realized (losses) gains on sale of AFS investments	$ (5.3)	$ 3.3	$ (44.0)	$ 49.7
Net gains (losses) on FVTPL investments	2.8	(12.0)	(161.4)	(70.0)
Impairment losses on AFS investments	(2.4)	(0.5)	(22.9)	(0.5)
Impact of discounting	2.8	9.4	162.6	44.7
Demutualization and IPO-related expenses, and interest on funds held in trust[1]	1.7	(16.7)	0.7	(30.1)
Amortization of intangible assets recognized in business combinations[1]	(3.5)	(0.6)	(5.4)	(3.5)
Revaluation gain on acquisition of McDougall[1]	67.0	-	67.0	-
Other[1][2]	(2.2)	(0.2)	(2.8)	-
Non-operating gains (losses)	**$ 60.9**	**$ (17.3)**	**$ (6.2)**	**$ (9.7)**
Operating income	**$ 104.7**	**$ 62.4**	**$ 310.5**	**$ 290.9**
Operating income tax expense	(25.7)	(15.9)	(71.6)	(70.5)
Operating net income	**$ 79.0**	**$ 46.5**	**$ 238.9**	**$ 220.4**

Notes:
(1) Included in Other income (expenses) in our consolidated financial statements.
(2) Other represents foreign currency translation of insurtech venture capital funds, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.

Underwriting expenses (net of other underwriting revenues) /

Operating expenses (net of other underwriting revenues)

Underwriting expenses consist of net commissions, operating expenses (net of other underwriting revenues), and premium taxes. When calculating our combined ratio and expense ratio, we deduct other underwriting revenues (which consist of various customer service fees).

Net claims and underwriting expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to underwriting expenses (net of other underwriting revenues). Operating expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating expenses (net of other underwriting revenues). Below are quantitative reconciliations of underwriting expenses (net of other underwriting revenues) to net claims and underwriting expenses, and operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Net claims and underwriting expenses	$ 781.1	$ 706.7	$ 3,063.7	$ 2,647.3
Remove: net claims and adjustment expenses	500.1	470.2	1,987.9	1,721.5
Remove: other underwriting revenues	0.7	2.0	7.4	8.2
Underwriting expenses (net of other underwriting revenues)	**$ 280.3**	**$ 234.5**	**$ 1,068.4**	**$ 917.6**

Underwriting expenses (net of other underwriting revenues) by line of business is as shown in the following table for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Personal auto	$ 110.6	$ 97.2	$ 433.4	$ 386.6
Personal property	90.2	68.4	334.2	270.6
Commercial lines	79.5	68.9	300.8	260.4
Underwriting expenses (net of other underwriting revenues)	**$ 280.3**	**$ 234.5**	**$ 1,068.4**	**$ 917.6**

Below is the quantitative reconciliation of operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Operating expenses	$ 113.1	$ 107.4	$ 435.0	$ 392.4
Remove: other underwriting revenues	0.7	2.0	7.4	8.2
Operating expenses (net of other underwriting revenues)	**$ 112.4**	**$ 105.4**	**$ 427.6**	**$ 384.2**

Distribution income

Income before taxes and amortization of intangible assets recognized in business combinations from our consolidated brokers and broker associates. Distribution income is calculated using distribution revenue earned on commissions from external insurance companies, and components of other income (expenses) (Distribution business expenses and share of distribution profit from investments in associates). Management uses distribution income to measure the performance of our consolidated brokers and broker associates.

Below is a quantitative reconciliation of distribution income for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	**2021**	**2022**	**2021**
Distribution revenue[1]	$ 19.9	$ -	$ 19.9	$ -
Distribution business expenses[2]	(15.7)	-	(15.7)	-
Share of distribution profit from investments in associates[2]	-	1.3	6.9	6.4
Remove: Income taxes included in share of distribution profit from investments in associates	-	0.4	2.4	1.6
Distribution income	**$ 4.2**	**$ 1.7**	**$ 13.5**	**$ 8.0**

Notes:

(1) Distribution revenue includes commissions on policies underwritten by external insurance companies.

(2) Included in Other income (expenses) in our consolidated financial statements. These amounts exclude amortization of intangible assets recognized in business combinations.

Non-GAAP Ratios:

Combined ratio

The total of our net claims and adjustment expenses and underwriting expenses (net of other underwriting revenues) during a defined period expressed as a percentage of net earned premiums for the same period. We also disclose a component of the combined ratio, underwriting expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net earned premiums in a given period. Management believes combined ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, combined ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

Expense ratio

The total of our net commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period, expressed as a percentage of net earned premiums for the same period. We also disclose a component of the expense ratio, operating expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses expense ratio to evaluate our underwriting expenses relative to our net earned premiums in a given period. Management believes expense ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, expense ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

Return on equity ("ROE")

Net income attributable to common shareholders for the 12 months ended at a specified date divided by the average equity attributable to common shareholders, adjusted for significant capital transactions if applicable, over the same 12-month period. ROE is a metric used by management to evaluate our net return, including investment returns, relative to our overall balance sheet position. Management believes that ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of ROE for the years ended December 31:

(in millions of dollars, except as otherwise noted)	Years ended December 31,	
	2022	**2021**
Net income attributable to common shareholders	$ 252.0	$ 213.2
Equity attributable to common shareholders(1)	$ 2,371.9	$ 2,396.3
Adjustment for Over-Allotment option and Anti-Dilution Adjustment(2)	$ -	$ (227.6)
Adjusted equity attributable to common shareholders	$ 2,371.9	$ 2,168.7
Average adjusted equity attributable to common shareholders(3)	$ 2,384.1	$ 1,993.3
Return on equity	10.6%	10.7%

Notes:

(1) Equity attributable to common shareholders is as at December 31, 2022 and 2021.

(2) In 2021, the Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.

(3) Average adjusted equity attributable to common shareholders is the average of adjusted equity attributable to common shareholders (equity attributable to common shareholders as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders and adjusted equity attributable to common shareholders as at December 31, 2020 was $1,818.0 million. The Over-Allotment option and Anti-Dilution Adjustment was used in the calculation of ROE for 2021.

Operating return on equity ("operating ROE")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the average of total equity, excluding accumulated other comprehensive (loss) income ("AOCI"), adjusted for significant capital transactions if applicable, over the same 12-month period. Management uses operating ROE to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the equity position of the organization. Management believes that operating ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, operating ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of operating ROE for the years ended December 31:

(in millions of dollars, except as otherwise noted)	Years ended December 31, 2022	2021
Operating net income[(1)]	$ 238.9	$ 220.4
Equity attributable to common shareholders, excluding AOCI[(2)]	$ 2,473.7	$ 2,298.3
Adjustment for Over-Allotment option and Anti-Dilution Adjustment[(3)]	$ -	$ (227.6)
Adjusted equity attributable to common shareholders, excluding AOCI	$ 2,473.7	$ 2,070.7
Average adjusted equity attributable to common shareholders, excluding AOCI[(4)]	$ 2,386.0	$ 1,913.3
Operating ROE	10.0%	11.5%

Notes:
(1) Operating net income is a non-GAAP financial measure. See "— Non-GAAP Financial Measures", above.
(2) Equity attributable to common shareholders, excluding AOCI is as at December 31, 2022 and 2021.
(3) In 2021, the Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.
(4) Average adjusted equity attributable to common shareholders, excluding AOCI is the average of adjusted equity attributable to common shareholders, excluding AOCI (equity attributable to common shareholders and AOCI each as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders, excluding AOCI, and adjusted equity attributable to common shareholders, excluding AOCI, as at December 31, 2020 was $1,755.9 million. The Over-Allotment option and Anti-Dilution Adjustment was used in the calculation of Operating ROE for 2021.

Operating earnings per share ("operating EPS")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the Company's weighted average diluted common shares outstanding during the period. Management uses operating EPS to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the common shares of the organization. Management believes that operating EPS is useful information for investors for such purpose. Although they may calculate it in a different manner, operating EPS and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

13 — OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares issuable in series. The Company’s issued and outstanding common shares were 115.9 million as at February 8, 2023. No preferred shares were issued and outstanding.

14 — DEFINITIONS

Refer to Section 12 — “Supplementary Financial Measures and Non-GAAP financial measures and ratios” for definitions of supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios that we use to measure and evaluate the performance of our business.

Claims development	The difference between prior year-end estimates of ultimate undiscounted claim costs and the current estimates for the same block of claims. A favourable development represents a reduction in the estimated ultimate claim costs during the period for that block of claims.
Customer relief related to the COVID-19 pandemic	Actions taken to ease the burden of the COVID-19 pandemic on our individual and business customers, in the form of rate relief and flexibility in underwriting rules.
Discounting	To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using the market yield rate of the investments used to support those liabilities. Provisions for adverse deviation are also included when determining the discounted value.
Frequency	A measure of how often a claim is reported as a function of PIF.
Gross written premiums (GWP)	The total premiums from the sale of insurance during a specified period. Amounts assumed from industry risk sharing pools are included in GWP, while amounts ceded to the industry risk sharing pools are included as a deduction from GWP.
Incurred but not reported (IBNR)	The amount that is added to case reserves to establish the total claim liabilities. It is intended to cover future development on reported claims, as well as claims that have occurred but not yet been reported to the Company.
Large loss	A single claim with a gross loss in excess of $1 million but less than $3 million.
Minimum capital test (MCT)	A regulatory formula defined by the Office of the Superintendent of Financial Institutions, that is a risk-based test of capital available relative to capital required.
Net earned premiums (NEP)	The portion of NWP equal to the expired period of time an insurance policy is in effect in the current period presented.
Net written premiums (NWP)	GWP less the cost of reinsurance coverage.

Policies in force (PIF)
The number of insurance policies that are in effect at a specified date.

Provision for adverse deviation (PfAD)
An actuarially determined amount that is added to claim liabilities to reduce the uncertainty of potential adverse effects that are inherent in the assumptions and data used to estimate such liabilities.

Severity
A measure of the average dollar amount paid per claim.

Underwriting income
Net earned premiums for a defined period less the sum of net claims and adjustment expenses, net commissions, operating expenses (net of other underwriting revenues), and premium taxes during the same period.